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1411-70428

**Audit of
the Hurricane Hugo Disaster
Rehabilitation Project
Component Managed by the Dominica
Banana Marketing Corporation**

**Audit Report No. 1-538-90-51-N
July 30, 1990**

AGENCY FOR INTERNATIONAL DEVELOPMENT

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

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

TELEPHONES:
32-9987 - 32-3123
FAX No. (504) 31-4465

July 30, 1990

MEMORANDUM

TO: Regional Development Office/Caribbean Director,
Aaron Williams

FROM: *BR Howard*
RIG/A/T, Reginald Howard

SUBJECT: Audit of the Hurricane Hugo Disaster Rehabilitation
Project Component Managed by the Dominica Banana Marketing
Corporation

This report presents the results of a non-Federal financial audit of the Hurricane Hugo Disaster Rehabilitation Project, Regional Development Office/Caribbean (RDO/C) Project No. 538-0175, component managed by the Dominica Banana Marketing Corporation during the period September 20, 1989 to March 31, 1990. The accounting firm of Price Waterhouse prepared the report which is dated June 21, 1990.

This is one of four audits done on the entities within the Commonwealth of Dominica that implemented project activities. The purpose of the project was to provide emergency relief to certain East Caribbean Islands including Dominica which were devastated by Hurricane Hugo on the weekend of September 17, 1989. Under a delegation of responsibility from the Ministry of Agriculture of Dominica, the Dominica Banana Marketing Corporation was tasked to procure and distribute US\$1,450,000 worth of fertilizer authorized under the project to be used for rehabilitation of banana crops. The audit covered the US\$1,444,531 that was actually spent under this authorization.

The purpose of the audit was to report on (1) the fairness of the fund accountability statement for the project component managed by the Dominica Banana Marketing Corporation, (2) the Corporation's internal control structure with respect to project operations, and (3) its compliance with agreement terms and applicable laws and regulations.

Price Waterhouse issued an unqualified opinion on the fund accountability statement for the project component managed by the Dominica Banana Marketing Corporation. The auditors identified questionable costs of US\$9,667 in this report, however, these same costs have previously been questioned in a separate report on the

Price Waterhouse issued an unqualified opinion on the fund accountability statement for the project component managed by the Dominica Banana Marketing Corporation. The auditors identified questionable costs of US\$9,667 in this report, however, these same costs have previously been questioned in a separate report on the Ministry of Agriculture (Audit Report No. 1-538-90-50-N). The auditors felt it was appropriate to show the questionable costs in both reports since the Ministry of Agriculture has oversight responsibility for the Corporation's activities under the project. With respect to the internal control structure for the project component, Price Waterhouse was of the opinion that it was adequate for project purposes. The auditors did note that the Corporation's accounting records were not up-to-date, thus precluding them from reconciling their physical counts with the books of account. However, they were satisfied that the controls surrounding physical receipts and issues were adequate. With respect to compliance with agreement terms and applicable laws and regulations, Price Waterhouse identified certain nonmaterial instances of noncompliance. For instance, US\$327,867 worth of fertilizer still had not been distributed to beneficiaries a month and a half after the project completion date, and a separate fund to receive farmer payments for half the value of project supplied fertilizer had not been established, nor had the details on the uses of the fund or the distribution procedures been clarified.

The draft report was discussed with RDO/C on June 7, 1990 and with the Dominica Banana Marketing Corporation on June 11, 1990. Both generally concurred with all findings and recommendations.

The Price Waterhouse report contains two recommendations on internal controls and three recommendations on compliance. While the Price Waterhouse recommendations are significant, certain of them would only be applicable if similar disaster assistance is provided in the future. Accordingly, we are restricting our formal recommendation to matters which have not yet concluded. We are including the following recommendation in the Office of the Inspector General's audit recommendation follow-up system.

Recommendation No. 1

We recommend that Regional Development Office/Caribbean (RDO/C) take the following actions to assure the Dominica Banana Marketing Corporation's compliance with agreement terms and applicable laws and regulations:

- a. monitor project activities to ensure that fertilizer stock totalling US\$327,867 is distributed to appropriate project beneficiaries,
- b. verify that the Dominica Banana Marketing Corporation has established a separate local currency bank account to receive farmer payments for half the value of project supplied fertilizer and any future reflows, and

- c. provide to the Dominica Banana Marketing Corporation written clarification of the agreement terms concerning the use (i.e., inputs to be purchased and distribution procedures to be followed) of funds deposited into the above mentioned local currency bank account. In the process of providing such clarification RDO/C should consider the basis upon which the project was originally authorized and should obtain written advice from legal counsel.

These matters were discussed in the Price Waterhouse report dated June 21, 1990.

Please advise this office within 30 days of actions planned or taken to clear the above recommendations.

Audit of The Hurricane Hugo Disaster Rehabilitation Project
Component managed by Dominica Banana Marketing Corporation
USAID/RDO/C Project No. 538-0175
As of March 31, 1990



**Audit of the Hurricane Hugo Disaster Rehabilitation Project
Component Managed by Dominica Banana Marketing Corporation
USAID/RDO/C Project No. 538-0175
As of March 31, 1990**

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Price Waterhouse

June 21, 1990

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 audit of the Hurricane Hugo Disaster Rehabilitation Project, component managed by Dominica Banana Marketing Corporation, USAID/RDO/C Project No. 538-0175 for the period September 20, 1989 to March 31, 1990.

Background

Hurricane Hugo devastated certain Eastern Caribbean Islands including Dominica, on the weekend of September 17, 1989. The hurricane caused extensive damage to utility poles, banana trees, food crops, houses, fishing boats and roads. The United States Government, through the United States Agency for International Development, Regional Development Office of the Caribbean, USAID/RDO/C, provided emergency relief funds to the Government of the Commonwealth of Dominica to assist in the rehabilitation.

The emergency relief funds, totalling US\$2,570,000, were provided in accordance with the terms of the original agreement dated September 30, 1989 which was amended on October 20, 1989 and December 29, 1989. Details of the relief funds, listed by component, are as follows:

	Emergency Relief Funds			Total
	Original Agreement September 30 1989	Amendment October 20 1989	Amendment December 29 1989	
Agriculture sector rehabilitation				
Banana crop fertiliser procurement	150,000	1,300,000	-	1,450,000
Other crops	70,000	230,000	-	300,000
Fishing industry rehabilitation	50,000	100,000	-	150,000
Emergency road and infrastructure repairs				
	50,000	450,000	50,000	550,000
Support and monitoring				
Environmental monitor	20,000	30,000	15,000	65,000
Financial monitor	30,000	90,000	(65,000)	55,000
	<u>US\$370,000</u>	<u>US\$ 2,200,000</u>	<u>US\$ -</u>	<u>US\$ 2,570,000</u>



Agriculture Sector Rehabilitation

Emergency funds were required to finance the acquisition of fertilizer and other agreed agricultural inputs critical to rehabilitating banana and other crop production. The Ministry of Agriculture bears responsibility for implementation of agriculture sector rehabilitation but has delegated procedures for the ordering and distribution of the banana crop fertiliser to the Dominica Banana Marketing Corporation. Although the Ministry of Agriculture still maintains a monitoring role over the implementation actions of the Dominica Banana Marketing Corporation, each of these entities have been treated as separate implementing agencies for reporting purposes since the Dominica Banana Marketing Corporation plays such a vital role in the rehabilitation process.

Fishing Industry Rehabilitation

Emergency funds financed the acquisition and distribution of critical fishing gear, nets, the replacement of boats which were lost and repairs to damaged boats. The Ministry of Agriculture bears responsibility for the implementation.

Emergency Road and Infrastructure Repairs

Emergency relief works involved general slide and drain clearance, the reconstruction of seawalls and other earth retaining structures, repairs to a bridge and roads and other critical repairs. These rehabilitation works were implemented by the Ministry of Communications, Works and Housing.

Support and Monitoring

This component consists of financial and environmental monitoring services. Our audit contract does not require any audit activities relating to this component.

Emergency Relief Funds

All receipts and payments of emergency relief funds are centrally administered by the office of the Accountant General. Hence, this office has been treated as a separate implementing agency for accountability purposes.

Implementing Agencies

The four principal agencies responsible for the implementation of this disaster rehabilitation project, as already described, are listed below:

- Dominica Banana Marketing Corporation.
- the Accountant General
- the Ministry of Agriculture and Fisheries
- the Ministry of Communications, Works and Housing

The Dominica Banana Marketing Corporation is a public corporation established by Act of Parliament Number 11 of 1988 in the Commonwealth of Dominica. Each of the other three implementing agencies are departments of the Government of the Commonwealth of Dominica.



Each implementing agency is separately accountable for the components of the rehabilitation effort which it is responsible for implementing, hence four separate audit reports have been submitted. However, due to the high degree of interrelationship between the activities of each implementing agency and for the purpose of viewing the project as a whole, each report should be read in conjunction with the other reports.

Rehabilitation Completion Date

The completion date for the rehabilitation process previously was February 28, 1990, however, this date was extended to March 31, 1990 to enable completion of agriculture and fisheries rehabilitation.

Audit Objectives and Scope

We were engaged to perform a concurrent financial audit of the Hurricane Hugo Disaster Rehabilitation Project No. 538-0175 for the period September 20, 1989 to March 31, 1990. Our audit was performed in accordance with generally accepted auditing standards and the United States 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 to determine whether:

- The fund accountability statement as of March 31, 1990 presents fairly the financial activities of the project at that date and costs reported as incurred and reimbursed by USAID/RDO/C during the period ended March 31, 1990 are allowable, allocable and reasonable in accordance with agreement terms and applicable laws and regulations.
- The internal control structure of the implementing agency is adequate to manage the project's operations.
- Government of the Commonwealth of Dominica and the implementing agency have complied with agreement terms and applicable laws and regulations which may affect the project's goals and incurred costs.

We have been alert to situations or transactions that could be indicative of fraud, abuse and illegal expenditures and acts.

The scope of our audit work consisted of:

1. Monitoring the implementing agency's utilization of funds, commodities and supplies provided under the grant agreement. Monitoring activities included:
 - Performing selective review of project related documentation, accounting records, internal control structure and inventory controls.
 - Performing necessary on-site tests, visits, inspections and observations to determine that the project's activities are in accordance with the agreement and are carried out as planned.
 - Reviewing the project's procurement procedures used to determine that sound commercial practices were used, including competition, reasonable prices and adequate qualities and quantities as agreed in the project agreement.



- Reviewing the procedures used to control the project's funds, including the channelling of such funds from the Government of the Commonwealth of Dominica to other government and non-government entities and to the beneficiaries, when appropriate. Also, reviewing the procedures for approval of contracts and contractors, procurement and beneficiaries, as appropriate.
2. Examination of the fund accountability statement for the implementing agency and for each major component of the project taken as a whole, through March 31, 1990. Reviewing for any costs which were not fully supported with adequate records or which were not allowable or reasonable under the terms of the agreement. This work included:
 - a. Determining whether advances of project funds were justified with documentation, including reconciliations of funds advanced, disbursed and available for each implementing agency.
 - b. Reviewing direct and indirect costs billed to USAID/RDO/C identifying and quantifying any questionable costs.
 - c. Review of the bank accounts and related controls. Obtaining positive confirmation of balances.
 3. Review and evaluation of the implementing agency's internal control structure to manage the project. The conduct of preliminary and compliance tests to determine the extent to which established procedures and controls are functioning as intended.
 4. The scope of our audit work included 100% verification of receipts of funds from the United States Agency for International Development and ensuring the proper accounting treatment and banking of those receipts. We examined all supporting documentation for payments for fertiliser purchased for "banana crop" rehabilitation. We performed physical verification of stock quantities on hand at various dates during the period. In relation to other disbursements under the project, we examined supporting documentation on a test basis as considered appropriate in the circumstances.

Results of Audit

Fund Accountability Statement

The fund accountability statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. Based on work performed, as summarised above, in our opinion, the fund accountability statement as of March 31, 1990 presents fairly the financial activities of the project at that date and costs reported as incurred and reimbursed by USAID/RDO/C during the period ended March 31, 1990 are allowable, allocable and reasonable in accordance with agreement terms and applicable laws and regulations which may affect the project's goals and incurred costs.

As stated in the fund accountability statement, costs of US\$9,667 are considered questionable. These questionable costs represent short shipments of fertiliser for which insurance claims should have been made. These costs are referred to also in the report for the Ministry of Agriculture of the Commonwealth of Dominica.



Internal Control Structure

In planning and performing our audit of the fund accountability statement we considered the internal control structure of the implementing agency in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement.

Our evaluation of the internal control structure included the systems of internal control surrounding:

- Receipt of funds
- Payment for goods and services
- Procurement of goods and services
- Physical controls over stock held prior to distribution
- Selection of beneficiaries under the project
- Distribution to beneficiaries
- Monitoring of the progress of the project by the various implementing agencies
- Adequacy of accounting records relating to the project

We noted no matters involving the implementing agency's internal control structure that we believe to be material weaknesses.

Compliance with Agreement Terms and Applicable Laws and Regulations

As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement and in order to form an opinion on compliance with agreement terms and applicable laws and regulations, we performed tests to ensure that the Government of the Commonwealth of Dominica and the implementing agency complied with the agreement terms and applicable laws and regulations which may affect the project's goals and incurred costs. Our tests of compliance disclosed the following instances of non-compliance:

- Progress reports and final reports were required to be prepared in accordance with the terms of the agreement. These reports were provided but not in accordance with the terms of the agreement.
- Some shipments of goods were not covered by marine insurance.
- Delivery of fertiliser to farmers under the banana crop rehabilitation has not been completed as of the date of our report.
- Some fertiliser ordered and paid out of project funds at March 31, 1990 was not delivered until April, 1990.
- A separate bank account has not been established for the monies received from farmers under the terms of the agreement.



These instance of non-compliance do not materially affect the project's goals and incurred costs. The results of our tests of compliance indicate that, with respect to items tested, the Government of the Commonwealth of Dominica and the implementing agency have complied, in all material respects, with agreement terms and applicable laws and regulations which may affect the project's goals and incurred costs. With respect to items not tested, nothing came to our attention that caused us to believe that the Government of the Commonwealth of Dominica and the implementing agency had not complied, in all material respects, with the terms of the agreement and applicable laws and regulations which may affect the project's goals and incurred costs.

Management Comments

This report has been discussed both with the United States Agency for International Development, Mission in Barbados and the Dominica Banana Marketing Corporation. Each of these entities are in general agreement with the content of this report. Specific comments are reproduced in Annex 1.

Price Waterhouse



Price Waterhouse

Hurricane Hugo Disaster Rehabilitation Project Component managed by Dominica Banana Marketing Corporation USAID/RDO/C Project No. 538-0175

Fund Accountability Statement As of March 31, 1990

Independent Auditors' Report

We have audited the accompanying fund accountability statement of the Hurricane Hugo Disaster Rehabilitation Project, component managed by Dominica Banana Marketing Corporation, USAID/RDO/C Project No. 538-0175 as of March 31, 1990. This fund accountability statement is the responsibility of the Government of the Commonwealth of Dominica and Dominica Banana Marketing Corporation. Our responsibility is to express an opinion on this fund accountability statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. Our audit also included assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the fund accountability statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the fund accountability statement audited by us presents fairly, in all material respects, the fund position of the Hurricane Hugo Disaster Rehabilitation Project, component managed by Dominica Banana Marketing Corporation, USAID/RDO/C Project No. 538-0175 at March 31, 1990 and the fund activity for the period September 20, 1989 to March 31, 1990, on the basis of accounting described in Note 1.

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

Price Waterhouse

May 18, 1990

**Hurricane Hugo Disaster Rehabilitation Project
Component Managed By Dominica Banana Marketing Corporation
USAID/RDO/C Project No. 538-0175**

**Fund Accountability Statement
For the Period September 20, 1989 to March 31, 1990**

	Budget		Actual		Questionable Costs (Note 5) US dollars
	US dollars	EC dollars	US dollars	EC dollars	
Funds for banana crop fertiliser procurement	<u>\$1,450,000</u>	<u>\$3,915,000</u>	<u>\$1,444,531</u>	<u>\$3,900,233</u>	<u>\$9,667</u>
Represented by:					
Fertiliser distributed to banana farmers	1,450,000	3,915,000	1,050,162	2,835,437	
Fertiliser stocks (Note 3)	-	-	327,867	885,241	
Fertiliser paid for, intransit (Note 4)	<u>-</u>	<u>-</u>	<u>66,502</u>	<u>179,555</u>	
	<u>\$1,450,000</u>	<u>\$3,915,000</u>	<u>\$1,444,531</u>	<u>\$3,900,233</u>	

Notes 1 to 6 form an integral part of this fund accountability statement.

**Hurricane Hugo Disaster Rehabilitation Project .
Component managed by Dominica Banana Marketing Corporation
USAID/RDO/C Project No. 538-0175**

**Notes to the Fund Accountability Statement
As of March 31, 1990**

1. Nature of activities and accounting policies:

The Dominica Banana Marketing Corporation is responsible for the procurement and distribution of fertilizer under the banana crop rehabilitation component of the Hurricane Hugo disaster rehabilitation project. The Corporation places orders with approved suppliers, arranges for importation of fertilizer, stores the fertilizer and distributes to approved beneficiaries in accordance with the terms of the agreement.

Payment for fertilizer is arranged by a formal request to the Ministry of Agriculture which forwards the request to the Accountant General of the Commonwealth of Dominica.

The fund accountability statement is prepared on the basis of cash receipts and disbursements.

Fertilizer stock is shown at cost.

2. Foreign currencies:

The implementing agency maintains its records in Eastern Caribbean currency, the legal currency of the Commonwealth of Dominica. The fund accountability statement has been translated into United States dollars using the exchange rate of 1 United States dollar to 2.70 Eastern Caribbean dollars.

3. Fertilizer stocks:

It is anticipated that fertilizer stocks will be fully distributed by June 15, 1990.

4. Fertilizer paid for, in transit:

This fertilizer shipment was received during April, 1990.

5. Questionable costs

Questionable costs are those costs not fully supported by adequate documentation (suspended costs), and those not allowable under the terms of the agreement (questioned costs). The questionable costs of US\$9,667, in the fund accountability statement, are suspended costs. These costs represent short shipments of fertilizer for which payment was made on or before March 31, 1990 and for which insurance claims should have been made. These costs are referred to also in the report for the Ministry of Agriculture of the Commonwealth of Dominica. The Dominica Banana Marketing Corporation is considering filing insurance claims for these short shipments.

**Hurricane Hugo Disaster Rehabilitation Project
Component managed by Dominica Banana Marketing Corporation
USAID/RDO/C Project No. 538-0175**

**Notes to the Fund Accountability Statement
As of March 31, 1990 (cont'd)**

6. Payments by farmers for non-granted fertilizer:

In accordance with the terms of the agreement, fertilizer is distributed to farmers on the basis of 50% "in-kind" grant and 50% cash or credit. It is required that payment by farmers for non-granted fertilizer be placed in a separate "input fund" to purchase other banana inputs on behalf of farmers. At March 31, 1990 amounts totalling US \$70,251 had been received from farmers.

Price Waterhouse



Hurricane Hugo Disaster Rehabilitation Project
Component managed by Dominica Banana Marketing Corporation
USAID/RDO/C Project No. 538-0175

Internal Control Structure
As of March 31, 1990

Independent Auditors' Report

We have audited the fund accountability statement of the Hurricane Hugo Disaster Rehabilitation Project, component managed by Dominica Banana Marketing Corporation, USAID/RDO/C Project No. 538-0175 as of March 31, 1990 and for the period September 20, 1989 to March 31, 1990 and have issued our report thereon dated May 18, 1990.

We conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

In planning and performing our audit of the fund accountability statement for the Hurricane Hugo Disaster Rehabilitation Project, component managed by Dominica Banana Marketing Corporation, USAID/RDO/C Project No. 538-0175 for the period ended March 31, 1990, we considered Dominica Banana Marketing Corporation's internal control structure 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.

The Government of the Commonwealth of Dominica and Dominica Banana Marketing Corporation are responsible for establishing and maintaining an internal control structure to manage the project's operations. In fulfilling this responsibility, estimates and judgements 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 unauthorised use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statement. 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 degree of compliance with the procedures may deteriorate.

For the purpose of this report we have classified significant internal control structure policies and procedures into the following categories: 1) receipt of funds; 2) payment for goods and services; 3) procurement of goods and services; 4) physical controls over stock held prior to distribution; 5) selection of beneficiaries under the project; 6) distribution to beneficiaries; 7) monitoring of the progress of the project by the implementing agencies; 8) adequacy of accounting records relating to the project.



Hurricane Hugo Disaster Rehabilitation Project
Component managed by Dominica Banana Marketing Corporation
USAID/RDO/C Project No. 538-0175

Internal Control Structure
As of March 31, 1990

Independent Auditors' Report (cont'd)

For all 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 a certain matter involving Dominica Banana Marketing Corporation's internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants and the United States Comptroller General's "Government Auditing Standards" (1988 Revision). 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 judgement, could adversely affect the organisation's ability to record, process, summarize and report financial data consistent with the assertions of management in the fund accountability statement. The reportable condition is described in finding 1 on the following page to this report.

A material weakness is a reportable condition in which the design or operation of one or more of the 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 the reportable condition described above is not a material weakness.

We have also included another recommendation of a potential improvement which came to our attention during our audit. This recommendation is described in finding 2 on the following page to this report.

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

Price Waterhouse

May 18, 1990

Hurricane Hugo Disaster Rehabilitation Project
Component managed by Dominica Banana Marketing Corporation
USAID/RDO/C Project No. 538-0175

Report on Internal Control Structure
AS of March 31, 1990

Findings

1. Accounting records not maintained on a timely basis.

Condition

The accounting records of the corporation were not up to date with the result that it was not possible to agree the physical count of stock to the books of account.

Criteria

Adequate accounting records should be maintained.

Cause

Other priorities of the corporation.

Effect

Inability to compare the physical stock count to the books of account. However, we have tested the controls surrounding physical receipts of stock and issues of stock to beneficiaries and we are satisfied that we can place reliance on the systems of internal control.

Recommendation

This should be drawn to the attention of the implementing agency in writing. In addition, should the United States Agency for International Development plan to advance funds in the future, assurance should be sought that such records will be maintained on a timely basis.

2. Lack of marine insurance documents to support insurance on fertiliser shipments

Condition

Insurance documents for three out of a total of nine shipments of fertiliser could not be located.

Criteria

In accordance with the agreement, all shipments must be covered by adequate marine insurance.

Cause

Either not received from persons who cleared the goods at port or misplaced.

Effect

We were able to ascertain that the shipments were insured, however, without examining the insurance documents, we were unable to ascertain adequacy of the insurance cover. The shipments arrived safely.

**Hurricane Hugo Disaster Rehabilitation Project
Component managed by Dominica Banana Marketing Corporation
USAID/RDO/C Project No. 538-0175**

**Report on Internal Control Structure
As of March 31, 1990**

Findings (cont'd)

Recommendations

In the event that future USAID funds are to be granted, the United States Agency for International Development should advise the implementing agency that all such documents must be obtained and be readily available for inspection.

Price Waterhouse



**Hurricane Hugo Disaster Rehabilitation Project
Component managed by Dominica Banana Marketing Corporation
USAID/RDO/C Project No. 538-0175**

**Compliance With Agreement Terms
And Applicable Laws and Regulations
As of March 31, 1990**

Independent Auditors' Report

We have audited the fund accountability statement of the Hurricane Hugo Disaster Rehabilitation Project, component managed by Dominica Banana Marketing Corporation, USAID/RDO/C Project No. 538-0175 as of March 31, 1990 and for the period September 20, 1989 to March 31, 1990 and have issued our report thereon dated May 18, 1990.

We conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

The Government of the Commonwealth of Dominica and Dominica Banana Marketing Corporation are responsible for compliance with the terms of the agreement and applicable laws and regulations. In obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of compliance by the Government of the Commonwealth of Dominica and Dominica Banana Marketing Corporation with agreement terms and applicable laws and regulations which may affect the project's goals and incurred costs. 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, the Government of the Commonwealth of Dominica and Dominica Banana Marketing Corporation complied, in all material respects, with the terms of the agreement and with applicable laws and regulations which may affect the project's goals and incurred costs. With respect to items not tested, nothing came to our attention that caused us to believe that the Government of the Commonwealth of Dominica and Dominica Banana Marketing Corporation had not complied, in all material respects, with the terms of the agreement and with applicable laws and regulations which may affect the project's goals and incurred costs.

We noted certain immaterial instances of non-compliance that we have included in the pages following this report as findings No. 1-3.



Hurricane Hugo Disaster Rehabilitation Project
Component managed by Dominica Banana Marketing Corporation
USAID/RDO/C Project No. 538-0175

Compliance With Agreement Terms
And Applicable Laws and Regulations
As of March 31, 1990

Independent Auditors' Report (cont'd)

This report is intended solely for the information and use of the United States Agency for International Development, the Government of the Commonwealth of Dominica and Dominica Banana Marketing Corporation. 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.

Price Waterhouse

May 18, 1990

Hurricane Hugo Disaster Rehabilitation Project
Component managed by Dominica Banana Marketing Corporation
USAID/RDO/C Project No. 538-0175

Report on Compliance with Agreement
Terms and Applicable Laws and Regulations
As of March 31, 1990

Findings

1. Reports were not submitted in accordance with the terms of the agreement:

Condition

No progress report was submitted during the duration of the project and the final report which was due on April 30, 1990 was not submitted until May 18, 1990.

Criteria

Project implementation letter number 1 states that two narrative reports should be submitted by the Government of the Commonwealth of Dominica. The first report to cover the period from October 1, 1989 to December 31, 1989 and the second report within thirty days of the completion of the project. The implementation letter states that these reports should be submitted by the Government of the Commonwealth of Dominica, not specifically from the Dominica Banana Marketing Corporation. However, since the Corporation is an implementing agency, a progress report should have been submitted.

Cause

The Dominica Banana Marketing Corporation was not aware of its status as an implementing agency and hence no separate interim report was issued. The final report was issued late due to various time constraints.

Effect

The progress report prepared by the Ministry of Agriculture during January, 1990 included information which allowed adequate monitoring of the activities of Dominica Banana Marketing Corporation. We do not consider that the project's goals and incurred costs have been materially affected by this breach of compliance.

Recommendations

In the future, the United States Agency for International Development should liaise more closely with the grantee to ensure that all implementing agencies are aware of their effective status and hence can meet expectations.

2. Fertilizer stock not distributed:

Condition

Fertilizer stock totalling US \$327,867 was not distributed at the date of our audit. It is planned that such distribution be completed by June 15, 1990.

**Hurricane Hugo Disaster Rehabilitation Project
Component managed by Dominica Banana Marketing Corporation
USAID/RDO/C Project No. 538-0175**

**Report on Compliance with Agreement
Terms and Applicable Laws and Regulations
As of March 31, 1990**

Findings (cont'd)

Criteria

All goods and services under the project should have been delivered at March 31, 1990 in accordance with the agreement.

Cause

Beneficiaries do not have the facilities to store fertilizer assigned to them and use the Corporation's storage facilities until fertilizer is needed.

Effect

This constitutes a breach of the agreement, however, considering the procedures in place to ensure proper distribution, that commitment has been made to the beneficiaries and that distribution is ongoing and expected to be completed by June 15, 1990, we do not consider that the project's goals and incurred costs have been materially affected by this breach.

Recommendation

The United States Agency for International Development should consider performing "in-house" monitoring activities until distribution is completed.

- 3. Non-establishment of a separate local currency bank account to monitor funds received from farmers for fertilizer purchased on a 50% cash or credit basis, to be used as a separate fund for further banana production inputs.**

Condition

The implementing agency did not establish a separate local currency bank account to hold funds received from farmers for fertilizer purchased on a 50% cash or credit basis in accordance with the terms of the agreement. We understand that establishment of such a bank account is currently in progress.

In the agreement, the funds received from farmers for fertilizer purchased on a 50% cash or credit basis, must be used as a separate fund for further banana production inputs. This stipulation is unclear and specifies neither the kind of production inputs nor the method of eventual distribution of these inputs.

Criteria

In accordance with the agreement these funds received from farmers should be channelled into a separate "input fund" to purchase other banana production inputs on behalf of farmers.

Hurricane Hugo Disaster Rehabilitation Project
Component managed by Dominica Banana Marketing Corporation
USAID/RDO/C Project No. 538-0175

Report on Compliance with Agreement
Terms and Applicable Laws and Regulations
As of March 31, 1990

Findings (cont'd)

Cause

No specific cause could be identified.

Effect

Non-establishment of a separate local currency bank account may create difficulties in monitoring the proper use of the "input fund" in accordance with the terms of the agreement and represents a breach of the agreement terms.

In addition, it is unclear as to the type of banana production inputs to be purchased with the funds and the distribution method.

Recommendations

The United States Agency for International Development should request, in writing, an assurance from the Government of the Commonwealth of Dominica that such a separate local currency bank account has been established.

In addition, the United States Agency for International Development and the Government of the Commonwealth of Dominica should clarify the agreement terms relating to the use of the "input fund". The clarification should address both the kind of banana production inputs to be purchased out of the input fund and the type of distribution procedure to be followed. In agreeing these details, the United States Agency for International Development should bear in mind the basis upon which the project was originally authorized and should obtain the written advice of legal counsel.

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List of Report Recommendations
As of March 31, 1990

1. The United States Agency for International Development should advise the Dominica Banana Marketing Corporation, in writing, that it was found that accounting records were not maintained on a timely basis and that under the agreement adequate records are required to be maintained. In future, before further USAID funds are advanced, assurance should be sought that such records will be maintained on a timely basis.
2. In the event that future USAID funds are to be granted, the United States Agency for International Development should advise the implementing agency that all documents to support insurance cover over goods shipped must be obtained and be readily available for inspection.
3. In the future, the United States Agency for International Development should liaise more closely with the grantee to ensure that all implementing agencies are aware of their status as implementing agencies and hence can perform in accordance with the terms of the relevant agreements.
4. The United States Agency for International Development should consider performing "in-house" monitoring activities until distribution of fertiliser stock of US\$327,867 is completed. Distribution is expected to be completed by June 15, 1990.
5. The United States Agency for International Development should request, in writing, an assurance from the Government of the Commonwealth of Dominica that a separate local currency bank account has been established for the funds to be received from farmers for fertiliser purchased on a 50% cash or credit basis. In addition, the United States Agency for International Development and the Government of the Commonwealth of Dominica should meet to clarify the agreement terms relating to the use of the "input fund". The clarification should address both the kind of banana production inputs to be purchased out of the input fund and the type of distribution procedure to be followed. In agreeing these details, the United States Agency for International Development should bear in mind the basis upon which the project was originally authorised and should obtain the written advice of legal counsel.

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Annex 1

Management Comments
As of March 31, 1990

- The United States Agency for International Development, Mission in Barbados, has provided comment as follows:

We were pleased to receive your final draft with regard to the concurrent audit of this project. We have read the report thoroughly and we concur with your findings therein.

- The Dominica Banana Marketing Corporation has provided the following comments:

1. The corporation is very grateful to USAID for providing the assistance of US\$1,450,000 to the industry for the purpose of making fertiliser available to growers following the destruction caused by Hurricane Hugo.
2. The funds were able to purchase 5,800 tons of compound physical fertiliser.
3. This allocation of fertiliser and contribution made by the corporation to growers have assisted in getting growers to rehabilitate their banana fields.
4. As of shipment of week ending 8/6/90 production was 1,720 tons.
5. The implementation of the project was delayed because of the conditions laid down by USAID.
 - (a) Fertilisers were to be of US source
 - (b) Transported on US ship
 - (c) Cost of fertiliser US\$434.00/ton CIF landed in containers.
6. Much valuable time was taken up to get USAID to waive the above conditions and purchase from existing suppliers.
7. In future, on such short term projects USAID should allow the recipient to have greater flexibility to implementing the project provided it meets some basic criteria such as proper accountability and the project meets its objective.
8. This is the first such USAID Project with the involvement of external auditors.
9. Some of the terms and conditions of the USAID project were not communicated to all parties concerned well in advance.