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ISA 70539

AUDIT OF THE STRENGTHENING COFFEE  
COOPERATIVES PROJECT COMPONENT  
MANAGED BY THE  
COFFEE COOPERATIVES OF HAITI,  
SEPTEMBER 1, 1985 TO DECEMBER 31, 1989

Audit Report No. 1-521-91-26-N  
March 5, 1991

**AGENCY FOR INTERNATIONAL DEVELOPMENT**

OFFICE OF THE REGIONAL INSPECTOR GENERAL

**AMERICAN EMBASSY**

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March 5, 1991

MEMORANDUM

TO: D/USAID/Haiti, David Cohen

FROM: RIG/A/T Acting, Darryl T. Burris *Darryl T. Burris jr*

SUBJECT: Audit of the Strengthening Coffee Cooperatives Project Component Managed by the Coffee Cooperatives of Haiti, September 1, 1985 to December 31, 1989

This report presents the results of a non-Federal financial audit of the Strengthening Coffee Cooperatives Project Component managed by the Coffee Cooperatives of Haiti (the Cooperatives) from September 1, 1985 to December 31, 1989, USAID/Haiti Project No. 521-0193. The accounting firm of Deloitte & Touche prepared the report which is dated January 10, 1991.

The purpose of the project was to provide institutional reinforcement to the Cooperatives and to improve their quality and ability to offer services to their members. The project included a sub-grant of \$462,410 to assist in strengthening the Cooperatives as a farmer-managed private coffee marketing group, which was the subject of this audit.

The objectives of the audit were to determine whether: (1) the Cooperatives' fund accountability statement for the period audited fairly presents project sub-grant receipts and disbursements, (2) the internal control structure of the Cooperatives was adequate to manage the project's funds, and (3) the Cooperatives complied with agreement terms and applicable laws and regulations.

Deloitte & Touche did not express an opinion on the fund accountability statement because of certain limitations to their audit scope, related primarily to the Cooperatives' lack of accounting records and a fund accountability statement. The auditors identified questionable costs incurred by the Association totaling \$252,873 (\$247,074 unsupported).

With respect to the Cooperatives' internal control structure, Deloitte & Touche was not able to obtain an understanding of the design of relevant policies and procedures nor was it able to determine whether the policies and procedures had been placed in operation. Accordingly, in performing the audit the auditors placed very little reliance on the internal control structure, but modified their audit approach to expand substantive audit

tests. The auditors identified six material internal control weaknesses concerning: (1) the lack of an adequate accounting system, (2) the lack of documentation supporting financial transactions, (3) inadequate payroll disbursement procedures and personnel records, (4) the lack of review of bank reconciliations, (5) inadequate reporting of project expenditures to USAID/Haiti, and (6) an inadequate filing system for supporting documentation.

With respect to compliance with agreement terms and applicable laws and regulations, the auditors found five instances of material noncompliance by the Cooperatives concerning: (1) an inadequate accounting system, (2) the lack of written approvals for air travel and transportation, and participant training costs, (3) undocumented procurement procedures, (4) the lack of approval for expenditures in excess of budgeted amounts, and (5) the lack of proper withholding for payroll taxes.

Because the project has ended we are not including, with the exception of Recommendation No. 1 below, Deloitte & Touche's report recommendations in the Office of the Inspector General's audit recommendation follow-up system. We do, however, suggest that A.I.D. prior to using this entity in the future, obtain assurance documenting that the Coffee Cooperatives of Haiti has implemented the recommendations included in the Deloitte & Touche audit report dated January 10, 1991.

#### Recommendation No. 1

We recommend that USAID/Haiti negotiate a settlement with the Coffee Cooperatives of Haiti for questionable costs totaling \$252,873 included in the Deloitte & Touche audit report dated January 10, 1991. The questionable costs consist of \$247,074 of unsupported costs and \$5,799 of ineligible costs.

AUDIT OF THE  
STRENGTHENING COFFEE COOPERATIVES PROJECT  
COMPONENT MANAGED BY THE  
COFFEE COOPERATIVES OF HAÏTI

USAID/HAÏTI PROJECT NO. 521-0193  
(Implemented by National Cooperative Business Association)

DECEMBER 31, 1989

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AUDIT OF THE  
STRENGTHENING COFFEE COOPERATIVES PROJECT  
COMPONENT MANAGED BY THE  
COFFEE COOPERATIVES OF HAÏTI

USAID/HAÏTI PROJECT NO. 521-0193  
(Implemented by National Cooperative Business Association)

DECEMBER 31, 1989

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January 10, 1991

Mr. Reginald Howard  
Regional Inspector General/Audit  
U.S. Agency for International Development  
Tegucigalpa, Honduras, C.A.

Dear Mr. Howard :

This report presents the results of our audit of the Strengthening Coffee Cooperatives Project, Component Managed by the Coffee Cooperatives of Haïti USAID/Haïti Project No. 521-0193, (implemented by National Cooperative Business Association) from September 1, 1985 to December 31, 1989.

## BACKGROUND

In July 1985, the U.S. Agency for International Development in Haïti (USAID) signed a cooperative agreement with the Cooperative League of the United States (doing business as National Cooperative Business Association - NCBA) to provide institutional reinforcement to the Coffee Cooperatives of Haïti (Cooperatives Caféières d'Haïti - CCH), and to improve the quality of local cooperatives and their ability to offer services to their members.

The agreement and its amendments provided funding of US \$ 1,700,000 of USAID/Haïti from September 1st, 1985 to December 31, 1989. The agreement included a sub-grant of US\$ 462,410 to assist in strengthening CCH as a farmer - managed private coffee marketing cooperative. The sub-grant to CCH includes the following budget categories and amounts in US dollars :

<u>Category</u>	<u>Amount</u>
Personnel	\$ 289,668
Per diem	87,089
Vehicle Operation	38,494
Renovation of office space	5,000
In-country training	<u>42,159</u>
	<u>\$ 462,410</u>

The project included four major objectives as follows :

- a) CCH will become a professionally managed and staffed cooperative organisation functioning on a business-like (for profit) basis.
- b) CCH will be able to establish itself on the international market as a quality Haïtian coffee exporter.
- c) CCH's coffee buying and exporting activities will enable it to successfully compete with private exporters.
- d) CCH will strengthen its cooperative network and its outreach capacity.

As of December 31, 1989, USAID/Haïti had disbursed funds under this project to NCBA in the amount of (US) \$ 494,185 and NCBA had disbursed funds to CCH in the amount of (US) \$ 361,185.

#### AUDIT OBJECTIVES AND SCOPES

The audit objectives were to determine whether :

- a) The fund accountability statement presented fairly the subgrant's receipts and expenditures from September 1, 1985 to December 31, 1989, and to identify any costs which were not fully supported by

adequate records or which were not allowable, allocable and reasonable in accordance with the terms of the agreement and USAID regulations.

- b) The internal control structure of CCH was adequate to manage the funds for the project's operations in compliance with USAID/Haïti requirements.
- c) CCH complied with applicable laws, regulations, agreements' terms and implementation letters which may have an effect on the project's cost.

Listed below are some of the audit procedures used to determine if funds were properly accounted for and used as intended by the agreements and applicable laws and regulations.

#### RECEIPTS

- 1) Confirm with USAID the total contributions made to NCBA and then subsequently to CCH.
- 2) Reconcile the grant funds recorded by CCH and NCBA with those confirmed as disbursed by USAID.
- 3) Obtain and review the bank reconciliations of CCH as at December 31, 1989.

#### DISBURSEMENTS

- 1) Evaluate CCH internal control procedures over disbursements.
- 2) Evaluate the procurement system to determine if the materials and supplies were purchased, and services obtained were in accordance with government procurement regulations and sound commercial practices.

- 3) Evaluate the warehouse controls over materials and supplies, including shipping, receiving and inventory control procedures to ensure that they are used solely for authorized purposes.
- 4) On a selective basis, test CCH controls over disbursements ensuring that the expenses have been properly approved.
- 5) Determine whether costs incurred in carrying out the purpose of the projects were reasonable, allocable and allowable in accordance with the agreement.
- 6) Identify any costs not considered appropriate for reimbursement under the agreement.
- 7) Verify the receipt of the checks by the recipient.

#### PAYROLL

- 1) Review and evaluate CCH's payroll preparation and distribution procedures.
- 2) Select employees from various payroll registers and test for authorization of employment, wage rate, net pay, and the distribution of the total payroll amounts in the appropriate accounts and department classification in monthly financial reports.
- 3) Determine that payroll deductions are in accordance with applicable local regulations and the agreement.
- 4) Verify the receipt of the checks by the recipient.

## GENERAL

- 1) Evaluate CCH budgetary control system including comparison of actual expenditures with the budget expenditures in the agreement.
- 2) Read the pertinent sections of the contracts to determine the basis for reimbursement.
- 3) Evaluate the procedures used in the preparation of the reimbursement requests submitted to USAID and determine if these procedures result in a timely, accurate, and proper submission of reimbursement requests.
- 4) Review cost reimbursement reports and test underlying documentation to obtain satisfaction that they were prepared on the basis of the principles for reimbursement.

Our audit was conducted in accordance with generally accepted auditing standards and included such tests of the accounting records and other procedures as we considered necessary in the circumstances.

The examination was also performed in accordance with 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 if funds were being properly accounted for and used as directed by the Cooperative Agreement, other program documents, and laws of Haïti.

## RESULTS OF AUDIT

### Fund Accountability Operations

At first, the accounting records of CCH (cash receipts, disbursement and general ledger) appeared to be adequate except for the payroll records which were found to be incomplete. After further review, we discovered

that the accounting records and supporting documents did not adequately identify the project expenses and are therefore considered unreliable. Furthermore, the accounting records of the project were not provided to us by NCBA and no Fund Accountability Statement was made available to us by either NCBA or CCH.

In addition, we identified certain costs amounting to \$ 252,873, that in our opinion are questionable costs. As a result of the scope limitations mentioned in the preceding paragraph, the lack of reliable records, supporting documents, and missing Fund Accountability Statement, we are not able to express an opinion, and thus we do not express an opinion on the project's Fund Accountability Statement for the period of September 1, 1985 to December 31, 1989.

#### Internal Control Structure

For all of the internal control structure, we could not obtain an understanding of the design of relevant policies and procedures and whether they have been placed in operation. Our study and evaluation of CCH internal control structure as it related to project activities disclosed significant deficiencies which in our opinion could adversely affect CCH's ability to record, process, summarize and report financial data consistent with the assertions of management in the Fund Accountability Statement.

#### Compliance with the Terms of the Agreement, and Applicable Laws and Regulations

Generally, CCH has complied with applicable laws, regulations and agreement terms although we found five material instances of non-compliance which may affect the project's incurred costs. Deviations with respect to overall compliance environment are more fully explained in the pertinent sections of this report.



Chartered Accountants

**STRENGTHENING COFFEE COOPERATIVES PROJECT**

Component managed by the Coffee Cooperatives of Haïti (CCH)  
USAID/Haïti Project No. 521-0193  
(Implemented by National Cooperative Business Association)

**Fund Accountability Statement  
September 1, 1985 to December 31, 1989**

January 10, 1991

**Independent Auditors' Report**

We have performed a financial audit of the accompanying Fund Accountability Statement of the Strengthening Coffee Cooperatives Project, Component managed by the Coffee Cooperatives of Haïti, USAID/Haïti Project No. 521-0193 (implemented by National Cooperative Business Association for the period from September 1, 1985 to December 31, 1989). The Fund Accountability Statement is the responsibility of NCBA management.

We were unable to obtain the Fund Accountability Statement from NCBA. We have prepared a Fund Accountability Statement on the basis of the financial informations which we had to compile in order to proceed with our audit. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

NCBA and CCH's accounting records and documentation supporting project transactions were generally inadequate. Because of this condition, it was not possible to identify the expenses and various sources and uses of funds

received by the Cooperatives. Consequently, it was not possible to satisfy ourselves with respect to the proper inclusion of all project financial transactions and the extent, nature and adequacy of disclosure of such transactions in the Fund Accountability Statement.

As described in note 4 to the Fund Accountability Statement, we identified certain costs amounting to \$ 252,873 that, in our opinion, are questionable costs (\$ 247,074 unsupported).

In view of the material effects of the matters described in the preceding paragraphs, we do not express an opinion on the accompanying Fund Accountability Statement for the period from September 1st, 1985 to December 31, 1989.

This report is intended solely for the use of CCH, NCBA and the United States Agency for International Development. 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.



Chartered Accountants

## STRENGTHENING COFFEE COOPERATIVES PROJECT

Component managed by the Coffee Cooperatives of Haïti (CCH)  
 USAID/Haïti Project No. 521-0193  
 (Implemented by National Cooperative Business Association)

Fund Accountability Statement\*  
 September 1, 1985 to December 31, 1989  
 (expressed in U.S. dollars)

Receipts	
USAID contributions	
to NCBA (note 1)	\$ <u>494,185</u>
Expenditures ( note 4 )	
Personnel	266,661
Per diem	77,071
Vehicles operations	37,084
Office renovations	12,457
In-country training	35,418
Not detailed	<u>13,957</u>
Total	<u>442,648</u>
Budget surplus	51,537
Not paid by NCBA to CCH as at	
December 31, 1989	<u>81,463</u>
Fund balance, at end of period	<u>\$ 133,000</u>

\* The Fund Accountability Statement was prepared by the independent auditor because the statement was not provided by the auditee (see Independent Auditor's Report).

## STRENGTHENING COFFEE COOPERATIVES PROJECT

Component managed by the Coffee Cooperatives of Haïti (CCH)  
 USAID/Haïti Project No. 521-0193  
 (Implemented by National Cooperative Business Association)

Notes to Fund Accountability Statement  
 September 1, 1985 to December 31, 1989

### 1. Summary of significant accounting policies

The significant accounting policies adopted by CCH are in accordance with generally accepted accounting principles in the United States of America with the following departures which are summarized below.

- a) The cash basis of accounting is followed for recording receipts (contributions) and expenditures (disbursements);
- b) Expendable supplies held for consumption are recorded as expenditures at the time of purchase;
- c) Equipment acquisitions are recorded as expenditures, if any.

### 2. Exchange rate

CCH maintains its accounting records in U.S. dollars, at the fixed exchange rate of five gourdes for US \$ 1.00.

### 3. Detailed expenditures

Adjustments in the use of USAID funds which exceed 15 % of any budget line require prior approval of USAID.

	Budget	Actual Expenditures
Personnel	\$ 289,668	\$ 266,661
Per diem	87,089	77,071
Vehicle operation	38,494	37,084
Office renovation (note 4)	5,000	12,457
In country training	42,159	35,418
Not detailed	<u>          </u>	<u>13,957</u>
TOTAL	<u>\$ 462,410</u>	<u>\$ 442,648</u>

#### 4. Questionable costs

According to USAID applicable regulations, costs charged to a project must meet the following general criterias :

- a. Be reasonable for the performance of the project. A cost is reasonable if, in its nature or amount, it does not exceed what would be incurred by a prudent person under the same circumstances.
- b. Be allocable to the project. A cost is allocable in accordance with the relative benefits received.
- c. Conform to any limitations or exclusions set forth in the agreement in which the project is based.
- d. Be adequately documented.

Ineligible costs are all those costs unallocable and/or unallowable in accordance with the terms of the agreements and applicable laws and regulations. Unsupported costs are all those costs not properly supported by the recipient, in excess of the budgeted amount per line item and costs considered unreasonable under the circumstances.

The following are costs incurred by Strengthening Coffee Cooperatives Project that were determined to be questionable because they did not conform with the above-mentioned criterias.

Budgeted Expenditures	\$ 462,410
	<u>                    </u>
Unsupported Costs (1)	\$ 247,074
	<u>                    </u>
Ineligible Costs (2)	\$ 5,799
	<u>                    </u>

Total Questionable Costs	\$ 252,873
	<u>                    </u>
Percentage of questionable costs	55 %
	<u>                    </u>

(1) Unsupported costs represent :

- expenditures of \$ 46,445 for which no supporting documents were available;
- disbursements, amounting to \$ 6,707 which exceeded the amounts budgeted in the category of Contingency (office renovation).
- expenditures of \$ 193,922 for which some supporting documents were available but those documents were not sufficient to support such expenditures.

(2) Ineligible Costs

- expenditures relating to Air Travel and Transportation Participant Training and Contingency, respectively \$ 5,799 which did not comply with the rules and regulations pertaining to such activities;

**STRENGTHENING COFFEE COOPERATIVES PROJECT**

Component managed by the Coffee Cooperatives of Haïti (CCH)  
USAID/Haïti Project No. 521-0193  
(Implemented by National Cooperative Business Association)

**Internal Control Structure  
As of December 31, 1989**

January 10, 1991

**Independent Auditors' Report**

We have audited the Fund Accountability Statement of the Strengthening Coffee Cooperatives Project, USAID/Haïti Project No. 521-0193 managed by the Coffee Cooperatives of Haïti (CCH) (Implemented by National Cooperative Business Association) for the period from September 1, 1985 to December 31, 1989 in which we disclaimed our opinion due to the findings of our work.

Our examination was conducted in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision) 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 Fund Accountability Statement is free of material misstatement.

In planning and performing our audit of the Fund Accountability Statement of CCH for the period from September 1, 1985 to December 31, 1989, we considered its 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 management of CCH 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 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 effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal controls policies and procedures, and have evaluated the following categories : revenues, payroll and disbursements.

For all of the internal control structure categories listed above, we could not obtain an understanding of the design of relevant policies and procedures and whether they have been placed in operation.

The lack of internal controls could adversely affect CCH's ability to record, process, summarize and report financial data consistent with the assertions of management in the Fund Accountability Statement.

The reportable conditions are described in Findings number 1 to 6 in the following pages of this report. These findings were considered to be material weaknesses, resulted in our audit approach being modified to expand substantive audit tests, thereby placing very little reliance on the internal control structure.

Without internal controls, 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 Fund Accountability Statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

*Deloitte & Touche*

Chartered Accountant

**STRENGTHENING COFFEE COOPERATIVE PROJECT**

Component managed by the Coffee Cooperatives of Haïti (CCH)  
USAID/Haïti Project No. 521-0193  
(Implemented by National Cooperative Business Association)

**Report on Internal Control Structure  
Audit Findings**

**1. Accounting System****Condition**

The financial and accounting system of NCBA and CCH was inadequate as the accounting books and other accounting records did not adequately identify the expenses and various sources of funds received by Cooperatives and their appropriate use.

**Criteria**

Paragraph 1L of Handbook 13, which is incorporated by reference to the Cooperative Agreement, requires CCH to maintain accounting records that contain all the financial information pertaining to the various activities of Cooperatives. These records should adequately identify the source and application of funds for USAID sponsored activities : USAID contribution, expenditures incurred under the agreement, unpaid obligations, fund balance. In addition, the accounting records shall also disclose the total cost of the program and the amount of that portion of the cost supplied by other sources.

Paragraph 1J of Handbook 13, which is incorporated by reference to the Cooperative Agreement, requires that program income earned by NCBA and CCH from the USAID supported activities be accounted for as set forth in the Handbook.

**Cause**

Due to lack of personnel, this section of the accounting system had not been given full priority.

**Effect**

Without an adequate system of accounting, which included all the pertinent accounting records that reflected the sources of financing related to the various activities of Cooperative, it was not possible to obtain an accurate, timely and complete disclosure of the receipts and disbursements.

**Recommendation**

NCBA and CCH should comply with the requirements, set forth in paragraphs 1J and 1L of Handbook 13, and improve its financial and accounting system which will provide management with a more accurate, current and complete disclosure for the USAID sponsored program, and with a more effective control over and accountability for all the funds of the Cooperatives.

**2. Accounting Records****Condition**

We noted, during our examination, that there was a lack of adequate documentation supporting certain expenditures incurred by the Cooperatives. Some documents were merely internal memos written to substantiate a disbursement; other documents were misfiled or simply could not be found.

**Criteria**

All disbursements should be adequately documented, the source documentation should be coded for the appropriate project, and all documents should be properly filed away.

**Cause**

It was difficult to obtain independent documentation for certain expenditures such as salaries. Management relied totally on the integrity of the direction to control such expenditures.

**Effect**

Absence of adequate source documentation makes it difficult to determine the reasonableness or the eligibility of the charge.

**Recommendation**

Evidence of an independent review of the charges incurred should be indicated on the internally prepared supporting documents to attest to the reasonableness and validity of such expenditures.

**3. Salaries****Condition**

- Personnel files were not adequately documented and did not always reflect the current salary and job descriptions of the employees.
- Employees signed a payroll sheet at time of payment. However, any employee could sign for another without any evidence of prior authorization from the recipient.

- We could not verify the signature on the payroll sheets since there was no appropriate documentation in the personnel file of the employee.

### Criteria

- An employee who receives the salary on behalf of another should present proof of authorization from that employee.
- Every employee should have a current personnel file which is regularly updated to reflect payroll and other changes, including evaluation reports.
- Payoff should be observed on a surprise basis by an employee of the accounting department.

### Cause

- At the beginning of the USAID project, there was an absence of organizational structure and maintenance of personnel files was not deemed necessary.
- Some of the employees were illiterate and had their payroll sheets signed by another employee.
- The directors, who knew all the employees at the units, were the most trustworthy to distribute the payroll.

### Effect

With the absence of personnel files for the four years audit of the USAID project, and the fact that employees could sign the payroll sheets for each other, it was very difficult to attest that the salaries recorded as paid to employees, who were no longer working at the Cooperatives and who did not have a current personnel file, were paid to bona fide employees who had worked on the USAID project.

**Recommendation**

- Establish and maintain for each employee a personnel file which is adequately and timely updated by someone in charge of personnel.
- The accounting department must, at the time of preparation of the payroll, compare on a test basis the name and salary of the employees with their personnel files.
- The accounting department must observe the payroll on a surprise basis.
- The illiterate employees should designate a person authorized to sign the payroll sheet on their behalf.

**4. Bank Reconciliations****Condition**

Bank reconciliations which were prepared by an accountant, were not reviewed by an independent employee.

**Criteria**

All bank reconciliations should be reviewed promptly so that any errors or irregularities in the preparation could be detected and corrected on a timely basis.

**Cause**

Such review was not part of the internal control structure of CCH.

**Effect**

Without review of the bank reconciliations, errors and omissions, unusual and/or significant reconciling items concerning cash might not be investigated on a timely basis.

**Recommendation**

All bank reconciliations should be reviewed on a regular and timely basis.

**5. Preparation of Periodic Advance****Condition**

The accounting department regularly prepared a list of the expenditures charged to the USAID grant, which was part of the Federal Cash Advance Status Report that management must submit to USAID. The procedures in the preparation of that list were not adequate to ensure that all the USAID charges, along with the related supporting documents, were accurately forwarded to the accounting department. If, for any reason, one of these supporting documents was lost, the expenditure would simply not be included in the Cash Advance Status reports.

**Criteria**

Both sound accounting practices and the Cooperative Agreement require that the list of the USAID project expenditures and related supporting documentation be complete and accurate to facilitate preparing the Federal Cash Advance Status Report.

**Cause**

- The reimbursement requests were not adequately reviewed.
- Absence of an adequate accounting system that would allow the timely and adequate recording of all the transactions related to the USAID.

**Effect**

Expenditures reported to the USAID in the Federal Cash Advance Status Report could be understated as some allowable USAID expenditures could be ignored due to misplacing or loss of supporting documents, or overstated items may be reported more than once or in the wrong amount.

**Recommendation**

- All reimbursement requests must be adequately reviewed before submission to the USAID.
- An adequate accounting system should be established to accurately control and record all expenditures. The charges, reported in the Federal Cash Advance Status Report, should be taken directly from those disbursements records and the related supporting documents should be cancelled to avoid future use. There should also be a reconciliation between the expenditures noted in the cash account and the total charges reported in the Cash Advance Status Report.

**6. Filing System****Condition**

CCH maintained various envelopes where all the supporting documents relating to the expenditures incurred under the grant were filed.

However, we noted that this filing system was not adequately followed as certain documents were incorrectly filed in the wrong envelopes, or could not be found at all.

### **Criteria**

In a file of expenditures, we should only find the expenditures for that particular file and for the appropriate grant by budget line.

### **Cause**

The poor filing resulted from the inadequate system of gathering the supporting documents which were not coded by project and budget line.

### **Effect**

Absence of a good filing system may pose some risks regarding the completeness or reliability of the related financial data.

### **Recommendation**

All supporting documents should be coded, identifying the related project for which the expenditure was incurred, and be properly placed in the appropriate envelope.

**STRENGTHENING COFFEE COOPERATIVE PROJECT**

Component managed by the Coffee Cooperatives of Haïti (CCH)  
USAID/Haïti Project No. 521-0193  
(Implemented by National Cooperative Business Association)

Compliance with Agreement Terms  
and Applicable Law and Regulations  
September 1, 1985 to December 31, 1989

January 10, 1991

**Independent Auditors' Report**

We have audited the Fund Accountability Statement of the Strengthening Coffee Cooperatives Project, USAID/Haïti Project No. 521-0193 managed by the Coffee Cooperatives of Haïti (CCH) (Implemented by National Cooperative Business Association) for the period from September 1, 1985 to December 31, 1989 and have issued our report thereon dated January 10, 1991 in which we disclaimed our opinion due to the findings of our work.

Our audit was conducted in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision), 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 Fund Accountability Statement is free of material misstatement.

Compliance with laws, regulations, contracts and grants, applicable to CCH, is the responsibility of CCH's management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of CCH's compliance with certain provisions of laws, regulations and terms of the agreements. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of non-compliance are failures to follow agreement terms and applicable laws and regulations that cause us to conclude that the aggregation of the misstatements, resulting from those failures or violations, is material to the Fund Accountability Statement. The results of our tests of compliance disclosed in Findings number 1 to 5, as described in the following pages as material instances of non-compliance, the effects of which have been disclosed in the Fund Accountability Statement.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, CCH complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that CCH had not complied, in all material respects, with those provisions.

This report is intended for the use of CCH, NCBA and the United States Agency for International Development. 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.

A handwritten signature in cursive script that reads "Deloitte Touche".

Chartered Accountants

**STRENGTHENING COFFEE COOPERATIVES PROJECT**

Component managed by the Coffee Cooperatives of Haïti (CCH)  
USAID/Haïti Project No. 521-0193  
(Implemented by National Cooperative Business Association)

**Report on Compliance with Agreement Terms and  
Applicable Laws and Regulations  
Audit Findings**

**1. Accounting system is inadequate****Condition**

The financial and accounting system of NCBA and CCH was inadequate as the accounting books and other accounting records did not adequately identify the expenses and various sources of funds received by the Cooperatives and their appropriate use.

**Criteria**

Paragraph 1L of Handbook 13, which is incorporated by reference to the Cooperative Agreement, requires CCH to maintain accounting records that contain all the financial information pertaining to the various activities of the Cooperatives. These records should adequately identify the source and application of funds for USAID sponsored activities; USAID contribution, expenditures incurred under the agreement, unpaid obligations, fund balance. In addition, the accounting records shall also disclose the total cost of the program and the amount of that portion of the cost supplied by other sources.

Paragraph 1J of Handbook 13, which is incorporated by reference to the Cooperative Agreement, requires that program income earned by CCH from the USAID supported activities be accounted for as set forth in the Handbook.

**Cause**

Due to lack of personnel, this section of the accounting system had not been given full priority.

**Effect**

Without an adequate system of accounting, which included all the pertinent accounting records that reflected the sources of financing related to the various activities of the Cooperatives, it was not possible to obtain an accurate, timely and complete disclosure of the receipts and disbursements.

**Recommendation**

CCH and NCBA should comply with the requirements, set forth in paragraphs 1J and 1L of Handbook 13, and improve its financial and accounting system which will provide management with a more accurate, current and complete disclosure for the USAID sponsored program, and with a more effective control over and accountability for all the funds of the Cooperatives.

**2. CCH did not comply with the rules and regulations regarding :**

- Air travel and transportation
- Participant training

**Condition**

USAID written approvals pertaining to Air Travel and Transportation, and Participant Training were not available for our review although management of CCH had informed USAID in writing of all such activities.

## Criteria

Under the grant agreement, international travel is to be reimbursed providing that the grantee obtain written concurrence from USAID.

USAID Handbook 13 requires that a Participants Data Form be presented to USAID prior to travel. In addition, under the grant agreement, once each month, the grantee shall submit three copies of Form AID 1380-9, "Monthly Report of Participants Under Grant" to the Office of International Training in Washington.

Under this grant, before any disbursement or issuance of any commitment documentation to use the contingency funds, unless USAID otherwise agrees in writing, the Cooperatives shall submit to USAID, in form and substance satisfactory to USAID, information on i) the intended use of the funds requested, and ii) where appropriate, documentation explaining how the proposed activity will contribute to the greater self-reliance of the Cooperatives.

## Cause

It was believed that written request and verbal authorization were adequate.

## Effect

Without documentation of such prior authorization from USAID, we could not determine if the travel and transportation costs of approximately \$ 5,799 included in In-Country line item and the participant training costs of \$ 42,159 were allowable.

**Recommendation**

CCH should ensure that the appropriate prior authorizations related to Travel and Transportation, and Participant Training are obtained from USAID.

**3. Procedures for procurement of goods were not documented****Condition**

The management of CCH did not try, through bidding or other procedures, to obtain the necessary goods and services at the best prices to avoid questions concerning potential conflict of interest.

Documentation of these efforts should be maintained when these goods are purchased from related parties.

**Criteria**

The grantee may use its own procurement policies and practices provided they conform to all USAID requirements set forth in Handbook 13 which, for example, indicates that conflict of interest situations should be avoided.

**Cause**

It was sometimes difficult to obtain independent bids for certain types of expenditures, such as the purchase of food and other small supplies.

**Effect**

Without documentation of the acquisition procedures, it was difficult to determine the reasonableness of the prices paid by the project in the procurement of goods and services.

**Recommendation**

The management of CCH must develop and document adequate procurement procedures which are in line with the regulations set forth in the USAID Handbook 13.

**4. Disbursements exceeded the amounts budgeted****Condition**

We noted during our review that total disbursements for certain line items exceeded the amounts budgeted, and the additional expenditures incurred in the amount of \$ 6,707 (12,457 - 5,000) - (5,000 X 15%) were merely transferred to another component of the budget.

**Criteria**

Approved budgets should be adhered to until such time as approval is received to incur additional expenses.

Transfers of funds to another budget line, which exceed 15 % of any line item, require prior approval of USAID.

**Cause**

There were no controls in place to prevent the expenditures for amounts in excess of the budget.

**Effect**

The excess such as in the case of office renovation in the amount of \$ 6,707 might not be approved and could be considered questionable costs.

Such transfers, if not properly documented, could lead to inadequate variances between budgeted and actual expenditures.

#### **Recommendation**

CCH should implement a budget control system which provides strict budgetary control over disbursements.

CCH should obtain approval prior to making disbursements that exceed the approved budgeted amounts.

Deviations from budget and transfers to another component, which exceed 15 % of that line item, must be authorized by USAID.

#### **5. Payroll taxes were not withheld**

##### **Condition**

Our review disclosed that salaries were paid to the employees at the gross amount without deduction of the corresponding payroll taxes.

##### **Criteria**

Haitian Income Tax Law requires employers to deduct payroll taxes from the employees' salaries and also to contribute their appropriate employer's tax portion to the government.

##### **Cause**

It was believed that employees working in non-profit organizations were not subject to payroll taxes.

**Effect**

Non-compliance with payroll tax withholdings required by the Haïtian tax rulings could result in payroll tax liabilities for CCH of approximately \$ 10,000.

**Recommendation**

The management of CCH should adhere to the payroll tax requirements in relation to employees' tax withholdings and employer's contribution.

**STRENGTHENING COFFEE COOPERATIVES PROJECT**

Managed by the Coffee Cooperatives of Haïti (CCH)  
USAID/Haïti Project No.521-0193  
(Implemented by National Cooperative Business Association)

**List of Report Recommendations****1. INTERNAL CONTROL STRUCTURE****Recommendations**

1. Accounting system needs to be improved.
2. Accounting records must be supported by source documentation.
3. Salaries must be independently reviewed by the accounting department.
4. Bank reconciliations should be independently reviewed.
5. Preparation of periodic advance requests must be enhanced and adequately reviewed.
6. Filing system must be improved.

**2. COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS****Recommendations**

1. Accounting system needs to be improved.
2. CCH should obtain from USAID prior authorization related to Travel and Transportation, Participant Training, and the use of Contingency Funds.
3. CCH must develop and document adequate procurement procedures which are in line with the USAID regulations.
4. CCH should obtain approval prior to making disbursements that exceed the approved budgeted amounts.
5. CCH should adhere to the payroll tax requirements in relation to employees' tax withholding and employer's contribution.