

Regional Inspector General for Audit  
Dakar

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**AUDIT OF THE UPPER VALLEY OPERATION'S EXPENDITURES  
CHARGED TO USAID/MALI PROJECT NO. 688-0233,  
AUGUST 15, 1988 TO APRIL 30, 1991**

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Audit Report No. 7-688-92-02-N  
February 28, 1992



**INSPECTOR  
GENERAL**

**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

PD-ABD-840

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

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WEST AFRICA

February 28, 1992

**MEMORANDUM**

**TO:** Dennis J. Brennan, Director, USAID/Mali

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

**SUBJECT:** Audit of the Upper Valley Operation's Expenditures Charged to USAID/Mali Project No. 688-0233, August 15, 1988 to April 30, 1991.

The attached report, prepared by the non-Federal audit firm KPMG Peat, Marwick, Mitchell & Co., presents the results of a financial audit of the Upper Valley Operation's costs charged to USAID/Mali's Upper Valley Development Project.

In August 1988, A.I.D. approved the Upper Valley Development project in Mali with the purpose of increasing farmer income, production and productivity in the Upper Valley region by strengthening public and private sector support of agricultural marketing, credit and extension services. Under this project, the Upper Valley Operation, a quasi-governmental rural development organization involved in project implementation, received \$1,343,454 during the period August 15, 1988 to April 30, 1991 to cover expenditures related to its reorganization, agricultural extension, credit, cooperative, privatization of rural enterprises, and rural roads activities.

KPMG Peat, Marwick and Mitchell & Co. performed a financial audit of the \$1,343,454 expended by the Upper Valley Operation in accordance with U.S. Government Auditing Standards to determine whether the fund accountability statement for the period August 15, 1988 to April 30, 1991 was presented fairly and whether the Upper Valley Operation complied with laws and regulations for transactions that may have a material effect on the financial statements. In carrying out this financial audit, the non-Federal auditors

obtained an understanding of the Upper Valley Operation's internal control structure to plan the audit and to determine the nature, timing, and extent of tests to be performed.

KPMG found that the Upper Valley Operation's fund accountability statement presents fairly the financial activities under the Project for the period audited except for \$122,432 in unallowable costs billed to USAID/Mali. These questioned costs consist of duplicate operating costs totaling \$72,345, an ineligible insecticide purchase of \$88, and an ineligible expenditure for transportation of fertilizer and insecticide of \$50,000. In obtaining an understanding of the internal control structure, KPMG noted certain reportable conditions. These conditions include a lack of controls to ensure (a) competitive bidding for contracts, (b) accurate recording and reconciliation of advances and expenditures, (c) safeguarded assets, (d) allowable and approved withdrawals are made from the Credit Guarantee Fund, and (e) adequate verification of cotton transporters' expenses claimed. Finally, KPMG reported that the Upper Valley Operation complied in all material respects with applicable agreements, laws and regulations except for the payment of \$122,432 in ineligible expenditures described above.

USAID/Mali expressed general agreement with the content of the audit report and stated that actions would be taken to correct the problems noted. The following recommendations are included in the Office of the Inspector General's audit recommendation follow-up system.

**Recommendation No. 1: We recommend that USAID/Mali resolve the questioned costs of \$122,432 recovering from the Upper Valley Operation those costs determined to be unallowable.**

Recommendation No. 1 is considered unresolved until we are advised of USAID/Mali's determination regarding the unallowable questioned costs.

**Recommendation No. 2: We recommend that USAID/Mali work with the management of the Upper Valley Operation to establish written policies and procedures to ensure that appropriate internal controls are established for: (a) competitive bidding and contracting, (b) recording and reconciliation of Project revenues and expenditures, (c) documentation of USAID financed commodities and equipment, (d) credit loans issued by banks under the USAID financed Credit Guarantee Fund, and (e) disbursements for the private transportation of cotton.**

Recommendation No. 2 is considered resolved as USAID/Mali has stated that it will take follow-up actions to ensure that problems are corrected.

Please advise RIG/A/Dakar within 30 days of receipt of this report of actions planned or taken by USAID/Mali to implement the above recommendations. Thank you for the cooperation and courtesy extended to the staff of KPMG and to our office during the course of this audit.

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)  
DEVELOPMENT OF HAUTE VALLEE PROJECT (No. 688-0233)  
FINANCIAL AND COMPLIANCE AUDIT OF EXPENDITURES CHARGED BY THE OPERATION  
HAUTE VALLEE TO THE MALI DEVELOPMENT OF THE HAUTE VALLEE PROJECT  
FOR THE PERIOD AUGUST 15, 1988 TO APRIL 30, 1991.

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 **Peat, Marwick, Mitchell & Co.**

**Banjul, The Gambia**  
Chartered Accountants and Business Consultants

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FINANCIAL AND COMPLIANCE AUDIT OF EXPENDITURES CHARGED BY THE OPERATION  
HAUTE VALLE TO THE MALI DEVELOPMENT HAUTE VALLEE PROJECT

FOR THE PERIOD AUGUST 15, 1988 TO APRIL 30, 1991.

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)  
DEVELOPMENT OF HAUTE VALLEE PROJECT (No. 688-0233)

FINANCIAL AND COMPLIANCE AUDIT OF EXPENDITURES CHARGED BY THE OPERATION  
HAUTE VALLE TO THE MALI DEVELOPMENT HAUTE VALLEE PROJECT

FOR THE PERIOD AUGUST 15, 1988 TO APRIL 30, 1991.

## 1. BACKGROUND

### 1.1 Project description

The Haute Vallee region comprises some 31,500 sq. km's on both sides of the Niger River from the Guinea border in the south to 100 km's north of Bamako. Out of the 430,000 people that live in the area, 55% occupy more than 90 villages and small hamlets.

The Government of the Republic of Mali (GRM), supported by USAID/Mali has established the following objectives for the Haute Vallee region:

- i) contributing to national self-reliance in cereals production (sorghum and millet) by increasing the investment in higher rainfall zones rather than non cost efficient irrigation.
- ii) reversing environmental degradation from drought and poor land use through rational and sustainable management of natural resources, namely; better soil and water conservation methods; promotion of fuel efficient wood and charcoal burning stoves; and crop production systems.
- iii) diversifying agricultural production into vegetables, for example, through credit loans given on the basis of group or cooperative guarantee and private sector marketing.
- iv) transferring tasks and responsibilities from Rural Development Organizations (RDO's) to private sector enterprises and farmers cooperatives.

USAID/Mali's overall program goal of an increased rate of economic growth for Mali, as well as its strategic objective of increasing rural household production and incomes, are in conformity with these GRM objectives for the Haute Vallee and are encompassed in the Development of the Haute Vallee (DHV) project (no. 688-0233).

The DHV project builds upon the experience of its predecessor the Operation Haute Vallee Project (no. 688-0210) which ended in September 1988 and had the objectives to establish a viable credit system; construct farm to market roads; commence farming systems research; strengthen OHV management; improve extension services; and create a unit working with village associations.

As was the case in the former project, the DHV project increases farmers' access to production technologies, equipment and other inputs; investment resources; and input and output markets, so as to effect a sustainable increase in agricultural production and net incomes of the Haute Vallee.

However, the DHV project relies increasingly on the private sector for the delivery of credit and commercial services. The Project also continues the transfer of responsibility for the management of the credit system and produce marketing from the OHV organization to village associations or cooperatives, private enterprises and banking institutions.

Thus, it is envisaged that the OHV will be developed into a self financing, monitoring, agricultural extension and community development planning organization, in accordance with GRM objective iv) above.

### **Subcomponents of the Project**

The DHV Project has six subcomponents, as follows:

#### **1. OHV Restructuring - Reorganization**

The OHV is to gradually withdraw from all credit marketing and input supply functions. The OHV Planning Division is to be strengthened to collect production data and OHV will move from deficit to profit through the elimination of non remunerative activities.

2. OHV Restructuring - Extension

The OHV Production Division is transferred into an Extension Division providing farmer education only.

3. Rural Enterprises and Institutions - Credit

Credit is given for oxen, animal traction equipment and small irrigation pumps through intermediate credit institutions giving credit to village associations (AV's)

The credit fund also finances the purchase of agricultural inputs and implements, the OHV coordinating the purchase and delivery by private suppliers of commodities for credit to farmers, or the AV's themselves identifying private sector suppliers and submitting their requests directly to the banks.

4. Rural Enterprises and Institutions - Cooperatives

The project aims to form between 183 and 228 AV's together with training of cooperative office holders and members as well as the setting up of functional literacy centres.

5. Rural Enterprises and Institutions - Privatization

The project enlists the private sector to transport all cash crops grown in the Haute Vallee region and to deliver all agricultural inputs and equipment. This is initially coordinated by the OHV but increasingly organized directly by the AV's.

6. Rural Roads

285 km's of existing tracks to be updated to all-weather dirt roads. The project will also finance routine maintenance of existing roads.

## Funding

The funding of these Project subcomponents from USAID is through the Development Fund for Africa (DFA) as follows:

	\$'000
Bilateral agreement with GRM	13,900
Cooperative agreement with NCBA	3,600
	<hr/>
	17,500
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Project expenditures by cost category comprises:

<u>Cost</u> <u>code</u>	<u>Cost category</u>	<u>\$</u>	<u>local</u> <u>currency</u>	<u>Total</u>
<b>Bilateral agreement</b>				
01	Technical Assistance	\$ 2,220,000	\$ 500,000	\$ 2,720,000
02	Construction	-	3,315,000	3,315,000
03	Commodities	950,000	150,000	1,100,000
04	Operating Costs	-	730,000	730,000
05	Agent Redeployment	-	200,000	200,000
06	Studies	250,000	357,000	607,000
07	Training	510,000	15,000	525,000
08	Credit	-	1,200,000	1,200,000
09	Functional Literacy	-	405,000	405,000
10	Evaluation/Audit	350,000	-	350,000
11	Project Support Unit	900,000	450,000	1,350,000
12	Contingency	267,000	377,000	644,000
13	Inflation	312,000	442,000	754,000
	<b>Bilateral Agreement total</b>	<b>\$ 5,759,000</b>	<b>\$ 8,141,000</b>	<b>\$ 13,900,000</b>
	<b>NCBA Cooperative Agreement</b>	<b>1,910,000</b>	<b>1,690,000</b>	<b>3,600,000</b>
	<b>TOTAL</b>	<b>\$ 7,669,000</b>	<b>\$ 9,831,000</b>	<b>\$ 17,500,000</b>

Project Costs by Sub-Component comprise:

<u>Subcomponent</u>	<u>\$</u>	<u>local</u> <u>currency</u>	<u>Total</u>
Reorganization	\$ 1,704,000	\$ 969,000	\$ 2,673,000
Extension	2,018,000	1,603,000	3,621,000
Credit	62,000	373,000	435,000
Cooperatives	1,996,000	2,295,000	4,291,000
Privatization	196,000	466,000	662,000
Roads	411,000	3,679,000	4,090,000
Project Management	1,282,000	446,000	1,728,000
TOTAL	<u>\$ 7,669,000</u>	<u>\$ 9,831,000</u>	<u>\$ 17,500,000</u>

## 1.2 Audit objectives and scope

### Objectives

The objectives of this financial and compliance audit are to:

- 1.2.1 determine the reasonableness, propriety and allowability of the costs charged to the project from inception to April 30, 1991 by the Operation Haute Vallee (OHV);
- 1.2.2 review and evaluate internal controls and operating procedures for the OHV;
- 1.2.3 determine whether the OHV complied in all material respects with applicable laws and regulations under the Project.

The audit was conducted in accordance with U.S. Government Auditing Standards as set forth by the Comptroller General of the United States.

### Scope

The scope of the audit included, but was not limited to, the following:

- Review of the grant agreement, project paper and other related project documents;
- Evaluation of project accounting records and related procedures of the Operation Haute Vallee;
- Review of local currency project expenditures for goods and services provided by Operation Haute Vallee to determine whether they are allowable, reasonable, relevant to project activities and supported by acceptable documentary evidence;
- Review the Operation Haute Vallee internal control systems and the performing of tests to determine the extent to which established procedures and controls are functioning as intended;

- Evaluation of OHV physical and accounting controls over A.I.D. financed commodities provided under the Operation Haute Vallee and determine their proper use, maintenance and custody;
- Determination of whether the Operation Haute Vallee is in compliance with applicable U.S. and GRM laws, regulations and agreements;
- Planning of the audit so as to devise steps to identify instances or indications of fraud, abuse of illegal acts found during the audit and any such instances or indications shall be described in the audit report.

### 1.3 Summary of audit results

We found no material unsupported revenues or expenditures in our substantive testing for the period under review. However, we noted the following questioned costs and reportable internal control weaknesses:

- 1.3.1 Lack of controls to ensure competitive bidding and contracting (Finding 3.2.1).
- 1.3.2 Lack of control over the recording and reconciliation of Project revenues and expenditures (Finding 3.2.2).
- 1.3.3 Lack of control over USAID financed commodities and equipment (Finding 3.2.3.1).
- 1.3.4 Lack of control over credit loans issued by banks under the AID - Financed Credit Guarantee Fund (Finding 3.2.3.2).
- 1.3.5 Lack of control over disbursements for the private transportation of cotton (Finding 3.2.4).

Point 1.3.5 above led to the charging of FCFA15,000,000 (\$50,000) non-allowable costs by OHV to the Project for the transportation of non-cotton items.

The most significant of these weaknesses is the lack of controls to ensure the proper recording and reconciliation of Project revenues and expenditures by both USAID/Mali and the OHV (point 1.3.3 above). This weakness also includes a lack of budgetary control as well as control over the reconciliation of amounts approved in the Project Implementation Letters (PILs) to subsequent advances and budgets approved.

Both USAID and OHV have different recording and reporting formats which do not facilitate proper or timely reconciliations between the two sets of records. As such, these reconciliations have not been performed.

This weakness has contributed to an undetected overstatement of expenditures recorded by both OHV and USAID/Mali under the Project of FCFA21,703,494 (\$72,345).

Included in our recommendations are additional reporting requirements for the OHV and USAID/Mali in order to facilitate proper and timely reconciliations and ensure accurate reports of OHV revenues and expenditures recorded under the Project.

All FCFA amounts detailed in this report have been translated into \$ at the rate of FCFA300 to \$1.

#### **1.4 Summary of project management comments**

Project management comments are listed under each finding in Sections 2.1, 3.1 and 4.1.

The complete text of the Project management comments is given in Appendix H to this report.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)  
DEVELOPMENT OF HAUTE VALLEE PROJECT (No. 688-0233)

FINANCIAL AND COMPLIANCE AUDIT OF EXPENDITURES CHARGED BY THE OPERATION  
HAUTE VALLE TO THE MALI DEVELOPMENT HAUTE VALLEE PROJECT

FOR THE PERIOD AUGUST 15, 1988 TO APRIL 30, 1991.

2. INDEPENDENT AUDITORS' REPORT ON THE OHV FUND ACCOUNTABILITY  
STATEMENT

We have audited the Fund Accountability Statement of revenues and expenditures recorded by the Operation Haute Vallee (OHV) under the Development of Haute Vallee Project (no. 688-0233) for the period August 15, 1988 to April 30, 1991 (Appendix A) and have issued our report thereon dated January 10, 1992.

The fund accountability statement is the responsibility of OHV management. 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 U.S. Government Auditing Standards, issued by Comptroller General of the United States. These standards required that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Except for the inelligible expenditures detailed in Finding 2.2.1 and Appendix A, in our opinion, the Fund Accountability Statement referred to above presents fairly, in all material respects, Project revenues and expenditures incurred and reimbursed for the period then ended in conformity with the basis of accounting described in Note 1 on Appendix B.

*Paul Marwick Mitchell & Co*

Firm's signature

Chartered Accountants

Banjul, The Gambia.

January 10, 1992

## 2.2 FINDINGS

### 2.2.1 Questioned costs - ineligible expenditures

#### Condition

We found in our substantive testing the following ineligible Project expenditures:

a. Recording error

Expenditures for August and September, 1990 charged to operating costs (cost code 04), of FCFA21,703,494 (\$72,345) by OHV has been recorded twice by USAID/Mali and OHV as a justification of an advance and as a reimbursement. Thus, expenditures charged by OHV under USAID Project funds for the period were overstated by this amount.

b. Purchase of insecticide

On October 28, 1989 OHV purchased insecticide valued at FCFA26,250 (\$88) and charged this to USAID funds under the Project (cost code 04). This expenditure is not authorized under Project Implementation Letter (PIL) No. 6 (Part B) and AID Handbook 1, Supplement B, Section 4.a.(3).

c. Transportation of fertilizer and insecticide

On July 12, 1989 OHV settled a balance due to a private transporter which included an invoice for the transportation of fertilizers and insecticide to the value of FCFA15,000,000 (\$50,000). A copy of this invoice is included in Appendix F.

This cost was then claimed against USAID Project funds as justification for a previous advance.

PIL No.8 makes provision for the transportation of cotton only by private sector firms and not other commodities. As such, this cost should not have been charged against USAID Project funds by OHV and is, accordingly, ineligible.

### Criteria

Only bona fide payments made by OHV for expenditures which fall under the parameters and provisions of approved Project regulations should be charged by OHV to USAID Project funds in accordance with these regulations.

### Cause

The duplicated expenditures arose from the submission by OHV of payments as a justification of an advance and also as a request for a reimbursement of the same costs. This was not detected by USAID/Mali because no verification is made by the Mission to ensure that OHV check numbers are not duplicated on submission of payments for reimbursement or as a justification of an advance.

The charging to USAID Project funds of the transportation of fertiliser's and insecticides was an oversight by OHV primarily because the balance due to the transporter was paid and, as such, included a number of invoices and other items, for example, advances to the transporter.

### Effect

The expenditures detailed above, totalling FCFA 36,729,744 (\$122,432) are ineligible under the DHV Project as non-allowable.

### Recommendation

We recommend that the recording error of FCFA 21,703,494 (\$72,345) be adjusted in USAID/Mali and OHV records and that the Mission keeps a control list of check numbers to review on examination of OHV expenditures to ensure that duplicated payments submitted by OHV are detected.

We also recommend that USAID be reimbursed for the ineligible expenditures charged by OHV under the Project totalling FCFA 15,026,250 (\$50,088).

We suggest that the Mission consider requesting copies of related invoices with the OHV monthly reports for the payments claimed by OHV.

Project management comments

a) Recording error

Mission and OHV records have been adjusted as indicated. Mission is instituting procedures to reconcile and monitor advances which will prevent duplicate payment.

b) Purchase of insecticide

In budgets for operating expenses presented to USAID by OHV there has been a line item for protection of stocks, referring to chemicals to be used for protection of seed stocks stored in OHV warehouses. Although this was not intended to cover insecticides, it was easily subject to misinterpretation which led to the error.

c) Transportation of fertilizer and insecticide

This expenditure occurred because the original supplier of the fertilizer and insecticide did not deliver them to their final destination as required, thus necessitating the hiring of a transporter to complete the deliveries, and therefore OHV will attempt to recover the amount from the supplier.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)  
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FINANCIAL AND COMPLIANCE AUDIT OF EXPENDITURES CHARGED BY THE OPERATION  
HAUTE VALLE TO THE MALI DEVELOPMENT HAUTE VALLEE PROJECT

FOR THE PERIOD AUGUST 15, 1988 TO APRIL 30, 1991.

3. INDEPENDENT AUDITORS' REPORT ON THE INTERNAL ACCOUNTING  
CONTROLS OF THE OHV

We have audited the Fund Accountability Statement of revenues and expenditures recorded by the Operation Haute Vallee (OHV) under the Development of Haute Vallee Project (no. 688-0233) for the period August 15, 1988 to April 30, 1991 (Appendix A) and have issued our report thereon dated January 10, 1992.

We conducted our audit in accordance with generally accepted auditing standards and U.S. 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 Fund Accountability Statement is free of material misstatement.

In planning and performing our audit of OHV, 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 OHV 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 the 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 monthly reports and the Fund Accountability Statement in accordance with the basis of accounting described in Note 1 to the Fund Accountability Statement (Appendix B). 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 control structure policies and procedures in the following categories:

- Procurement cycle
- Disbursement cycle
- Revenue cycle
- Recording and reporting cycle
- Inventory and assets control cycle

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 effective operation, and we assessed the control risk.

We noted certain matters involving the internal control structure 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 judgement, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the Fund Accountability Statement.

We found the following reportable conditions:

- Lack of controls to ensure competitive bidding and contracting (Finding 3.2.1).
- Lack of control over the recording and reconciliation of Project revenues and expenditures (Finding 3.2.2).

- Lack of control over USAID financed commodities and equipment (Finding 3.2.3.1).
- Lack of control over credit loans issued by banks under the USAID financed Credit Guarantee Fund (Finding 3.2.3.2).

A material weakness is a reportable condition in which the design or operation of one or more 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. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable and, accordingly, would not necessarily disclose all reportable conditions that are considered material weaknesses as defined above. We noted the following matter involving the internal control structure and its operation that we consider to be material weaknesses as defined above:

- Lack of control over disbursements for the private transportation of cotton (Finding 3.2.4).

This report is intended for the information of RIG/A/D. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Peat Marwick Mitchell & Co.*  
 .....

Firm's signature

**Chartered Accountants**

Banjul, The Gambia.

January 10, 1992

## 3.2 FINDINGS

### 3.2.1 Procurement Cycle

**Internal controls over competitive bidding and contracting are inadequate**

#### Condition

The OHV Accounting Manual states that all expenditures in excess of FCFA100,000 (\$333) are required to be competitively bid through at least three tenders which are then selected and approved by a committee.

This tendering limit was employed only once during the period under review, the limit used being FCFA3 million (\$10,000) in accordance with GRM regulations.

Given this limit we found five payments over FCFA3m totalling FCFA17,356,017 (\$57,853) for which no evidence of competitive bidding or written contracts were available for our inspection.

We also found one contract for FCFA5,807,770 (\$19,359) for which, again, no evidence of competitive bidding was available.

With respect to payments falling below FCFA3 million (which account for 43% of total expenditures charged by OHV to USAID Project funds for the period) the OHV does not maintain a list of approved suppliers or price lists as a basis for the selection of suppliers for these purchases.

#### Criteria

To ensure that significant procurement of commodities and equipment is done at the best price to the Project (given other considerations such as delivery, quality, product specifications) the purchase should be competitively bid between at least three suppliers and written contracts signed in accordance with the selected tender.

Procurement of less significant goods and services should also be made at the best price to the Project through the selection of products and suppliers on the basis of approved and up to date supplier and price lists.

#### Cause

We understand that the procurements over FCFA3 million did not undergo competitive bidding because the GRM regulations provide that this process can be foregone in the instances of urgency.

#### Effect

The lack of competitive bidding creates the risk of ineligible costs through prices which are higher than would otherwise be selected under the bidding process, given adequate delivery, quality and product specification.

It also increases the risk of misappropriation of USAID Project funds through collusion with suppliers.

Increasing of the bidding limit, as well as the lack of approved supplier and price lists, also increases these risks for expenditures below FCFA3 million.

#### Recommendation

All procurements in excess of FCFA3 million should be competitively bid with at least three approved suppliers and written contracts obtained.

Situations in which commodities are required urgently should be avoided by OHV by adequate planning and only used to forego the competitive bidding process with USAID/Mali approval.

#### Project management comments

Since the period under audit, OHV has worked to improve its purchasing and contracting procedures and is now in compliance with the stated procedures.

### 3.2.2 Recording and reporting cycle

**Lack of control over the recording and reconciliation of OHV Project revenues and expenditures.**

#### Condition

In our examination we noted the following:

- a. The Mission does not reconcile information from the monthly reports submitted by OHV under the Project to the records compiled and held at the Mission.

We found that, as at April 30, 1991, the OHV had a balance of unjustified advances to OHV of FCFA3,039,206 (\$10,131) whereas the Mission had an equivalent balance of \$47,917. The discrepancy is due, in part, to the timing difference of 1 - 2 months of OHV monthly disbursements yet to be recorded by the Mission.

- b. The Mission and OHV have different recording and reporting systems:
  - i) OHV only records amounts in FCFA while the Mission only records in US\$
  - ii) OHV reports disbursements made by cost category as against an annual budget (approved under the PILs) per cost category. The Mission records disbursements as justifications to the approved related advance (requested by OHV) by cost category.
  - iii) OHV reports show disbursements by cost category for the current month and year to date (and variances to the annual budget) whereas the Mission can select reports from MACS which show the same information but only when combined with direct procurements made by USAID/Mali under the Project.

- iv) We found discrepancies in total local currency expenditures for the period under the Project by cost category due to different classification of costs by OHV and the Mission (see appendix B). This is because the Mission must allocate the expenditure by cost category against the corresponding advance given. Thus, if the advance is used up another advance, and cost category, must be used to allocate the disbursement.
- c. Inadequate budgetary control over project expenditures by OHV as:
- i) The annual budget by cost category recorded by OHV in its monthly reports includes budgeted direct USAID/Mali procurement amounts. Direct procurements by the Mission are not recorded by OHV. Accordingly, there is comparison of the budget, which includes these amounts, to actual disbursements, which excludes them. As such, the variance produced for these cost categories is not meaningful for budgetary control purposes.
  - ii) Variances to budget are only applicable at or towards the end of the year to which they relate. The annual budget approved and subsequently approved by a PIL details amounts by cost category (see Appendix A) with little or no breakdown of component costs or related activities. Thus, when the Mission approves the OHV monthly reports of disbursements it simply ensures the total amount by cost category is not in excess of the budgeted amount and not that the related Project activity is reasonable and allowable.
  - iii) The OHV reported budget is not revised for transfers, reclassification and approvals given in subsequent PILs.

- d. The Mission does not review OHV monthly reports for duplicated disbursements. As detailed in Finding 2.2.1 we found a disbursement recorded twice by both OHV and the Mission.
- e. OHV and the Mission do not perform a periodic reconciliation of the movement of funds. That is, reconcile total funds authorized and advanced; total disbursements justified and reimbursed; and balance of unjustified advances.

Currently, OHV only reconciles its Disbursements Journal (unjustified advances) balance to the bank statement at month-end.

We found at April 30, 1991 an unreconciled difference of FCFA525,357 (\$1,751 - see Appendix A) on reconciliation of the OHV movement in funds for the period under review.

- f. There is a lack of control by OHV and the Mission over the recording and reconciliation of amounts approved in the PILs to that recorded as budgeted amounts in the OHV monthly reports and that recorded as advances against PILs by USAID/Mali.

We found that, for the period under review, neither OHV or the Mission recorded and monitored the balance of approved PIL amounts per cost category not claimed by OHV as budgets per the OHV monthly reports or not claimed as advances per USAID/Mali reports.

For the period we noted a total balance of \$450,370 of amounts approved in the PILs not claimed as advances by OHV, the last advance claim being over a year before April 30, 1991.

### Criteria

The OHV and the Mission should have internal controls to ensure the proper, accurate and timely recording of Project revenue and expenditures charged by the OHV for the basis of the preparation of reliable financial reports.

### Cause

The reasons for the weakness in internal controls found and other findings are detailed in the Condition section above.

### Effect

The weaknesses identified in a. to f. above create the risk of material misstatement of the OHV and USAID/Mali reports through undetected recording errors and/or misappropriation, including the unreconciled difference in the movement of funds for the period of FCFA525,357 (\$1,751).

In addition, there is a risk that approved PIL funds may lapse if not claimed as advances within a given period and thereby be unavailable to fund subsequent Project activities. As stated above, these advances total \$450,370.

### Recommendations

We recommend the following:

- i) The monthly reporting of OHV disbursements of USAID funds under the DHV Project should:
  - not include USAID/Mali direct procurement amounts in the budgeted amounts by cost category, to enable a proper comparison of actual to budgeted OHV Project disbursements.
  - include a schedule of the movement of funds in the month (see Appendix D), the balance of unjustified advances being reconciled to the balance of the OHV Disbursements Journal at month-end by the OHV, and to the Advances Report (PILs only) from the Mission's MACS system at month-end by USAID/Mali.

Any reconciling items should be detailed and explained and any recording errors corrected in the next month.

The OHV movement of funds report should be copied to USAID/Mali and vice versa, with the Mission to ensure that both reports reconcile for the month.

ii) OHV and USAID/Mali maintain a schedule of:

- amounts approved in the PILs by cost category together with reclassifications and transfers of approved previous PIL amounts;
- amounts approved as budgets;
- amounts claimed as advances.

Appendix E suggests a format for this schedule. The schedule should be completed and copied to OHV/the Mission and both reports approved by OHV and USAID/Mali on a quarterly basis.

At the beginning and end of the year the balance of approved PILs by cost category on the schedule should be compared to the amounts budgeted and advanced by cost category by PIL.

iii) The Mission should ensure proper classification of disbursements by cost category in accordance with the OHV monthly report. If the related unjustified advance balance is not available for the disbursement cost category then this should be resolved with OHV to ensure equivalent disbursements are recorded by cost category for the month by OHV and USAID/Mali.

The report detailed in Appendix D allows a comparison of disbursements by cost category per OHV and per the Mission

- iv) The budget for the year should be detailed by activity with the corresponding cost category. This was performed with the approved OHV Project budget for 1988/89. Thus, the Mission, on approval of the disbursements per the OHV monthly report, can ensure that the expenditure is in accordance with approved budgeted Project activities for the month, rather than a comparison to a budget by cost category towards or at the end of the year.

Any alterations to the budgeted activities or amounts should be approved by USAID/Mali and a revised detailed budget produced and approved.

The budget by activity should be split by the sub-cost categories currently reported by OHV.

- v) The Mission should ensure OHV monthly disbursements are recorded before the next OHV monthly reports is received. This would enable a timely reconciliation to be performed of the previous month end balance of unjustified advances as there should be no reconciling items as timing differences representing unrecorded disbursements by USAID/Mali.
- vi) The OHV should reconcile the movement of USAID Project funds for the period to ascertain and resolve any difference.
- vii) The OHV should ensure old unclaimed funds approved in the PILs are rescheduled as appropriate with the approval of the Mission to order to utilise them.

#### Project management comments

Mission will undertake a study to determine precisely where the differences lie and how OHV and Mission records might be brought into agreement.

### 3.2.3 Inventory and assets control cycle

#### 3.2.3.1 Lack of control over USAID financed commodities and equipment.

##### Condition

- a. OHV maintains an Asset Card (Fiche Detenteur) per Department with all USAID funded Project commodities and equipment allocated to the department being listed on the Card and signed by the Department Head.

We found that these cards, initiated under the previous project, have not been updated for assets purchased and retired under the current DHV project.

In addition, the Asset Card only states a description of the asset and quantity and, as such, does not contain adequate information to enable effective safeguarding and control of the assets.

- b. We also noted that Project assets were not allocated or labelled with unique codes in order to identify them.
- c. We found that OHV does not prepare documentation for the receipt or issue of Project assets. For assets received by the Mission and subsequently delivered by OHV, the Mission prepares a Delivery note, authorized by OHV.

##### Criteria

The OHV is responsible for operating an adequate and effective system of internal controls over commodities and equipment funded by USAID under the DHV Project, either by OHV or USAID/Mali direct procurement.

### Cause

The lack of control arises from not fully recording the asset information (date of purchase, description, cost, responsibility, location); the information which has been recorded is not up to date; not completing receipt and issue documentation; and not assigning unique code numbers to facilitate physical verification and improve control over asset movements.

### Effect

The lack of effectively controlling USAID financed assets under the Project creates the risk of undetected misappropriation of the assets , as well as the non-allowable use of Project assets.

### Recommendation

We recommend that an Asset Register be compiled on a computer database or spreadsheet package listing for each asset financed by USAID under the DHV project:

- i) unique asset code number
- ii) date of purchase
- iii) description and specification
- iv) unit of measure
- v) cost
- vi) department responsible
- vii) location
- viii) source of funding
- ix) date of last physical verification and initials of verifier

Using a computer database or spreadsheet package enables assets to be reported in order of one or more of the parameters i) - ix) above as required. For example, a listing of all assets by department or location.

The asset code should be unique and can be based on certain criteria. For example, first two digits for source of funding (01 for USAID funded), next two digits for Department and next two for location.

All assets should be labelled with their unique code and physically verified by the Administration and Finance Department (DAF) on a half yearly basis, by cycle count if necessary, and the date and person's initials recorded on the fixed asset register ( point ix) above)

All assets received by OHV should have a OHV Asset Receipt Note detailing date, description and specification, quantity, unit of measure, source of funding, Department responsible and proposed location. This should then be approved by the relevant Department Head and the DAF Head. A code is assigned by DAF, recorded on the the Asset Receipt Note and the asset labelled with the code. A copy of the asset Receipt Note is retained by the Department, and by DAF to input onto the Asset Register.

Assets being transferred to another location and/or Department should be notified to DAF by a Department Head approved Asset Issues Form detailing the information as per the Asset Receipt Note, for input onto the Asset Register by DAF.

#### Project management comments

Mission will follow up and verify that the recommended steps are taken.

### **3.2.3.2 Lack of control by OHV over credit loans issued by Banks under the Project's USAID funded Credit Guarantee Fund**

#### Condition

Under PIL No. 23, agricultural inputs purchased by OHV under the Project were reimbursed by USAID/Mali in the form of a Credit Guarantee Fund consisting of \$710,000 deposited in five Banks in June, 1990.

The Fund is used to reimburse the banks for a percentage of any defaults on loans given out by them under the Fund. The loan must be economic (profit making) and prior approval by OHV is required.

The agreement between OHV and the banks provides that the bank submit quarterly reports to OHV detailing the loans made under the Fund and amounts and details of amounts claimed by them out of the Fund.

In addition, interest should be charged at agreed rates on these deposits on a timely basis.

#### We found:

- a. No quarterly reports had been submitted by the banks in contravention of the agreement.
- b. No deposit interest had been credited for the period under review by BIAO or BMCD banks as per their bank statements.
- c. Out of the four banks currently holding funds under the Credit Guarantee Fund (BCA, BNDA, BIAO, BMCD), except for the BNDA, only two loans have been given out under the Fund according to the banks and only one of these has been approved by OHV.
- d. According to the BNDA, sixty four loans have been given out under the Fund. However, OHV states that only three loans from BNDA have been received and approved. OHV are unaware of the remaining 61 loans.

- e. The loans approved by the OHV from our inspection are profitable and default is unlikely.

### Criteria

OHV should ensure that the agreement with the banks is fulfilled and adhered to and that there is adequate communication to ensure loans made under the Credit Guarantee Fund and amounts withdrawn from the fund are agreed between OHV and the banks.

### Cause

OHV has not requested the quarterly reports from the banks or ensured that proper interest is credited on a timely basis.

OHV has not ensured that an adequate amount of loans are approved in order to take advantage of the Credit Guarantee Fund having only approved four such loans since the Fund commenced in June, 1990.

### Effect

The weaknesses identified create the risk of undetected non-allowable and/or non-approved withdrawals from the Fund by the banks, as well as the lack of timely crediting of interest by the banks.

There is also the risk that the banks have an incentive not to approve loans under the Fund in order to reduce claims on the Fund and to leave the deposit intact in order to accumulate interest income for the bank on longer term deposits.

### Recommendation

We recommend that the OHV:

- i) requests from the banks timely submission of quarterly reports.
  
- ii) ensures that deposit interest is properly credited on a timely basis.
  
- iii) ensures the BCA, BIAO and BMCD banks actually provide an adequate amount of loans, previously approved by OHV, under the Fund in order to facilitate the effective use of the Fund deposited with them.
  
- iv) reconciles with BNDA the status of the 61 loans not approved by OHV, either by OHV approving them or by agreement with BNDA that the loans are not covered by the Fund. Again, OHV should ensure there are an adequate amount of loans made by BNDA, who receive 55% of the funding, to make effective use of the Credit Guarantee Fund.

### Project management comments

Credit Consultant has been instructed to apply these measures.

USAID will follow up and verify that the recommended steps are taken.

### 3.2.4 Disbursements cycle

Lack of control over disbursements for the private transportation of cotton under the Project.

#### Condition

PIL No.8 allocates funds for the private transportation of cotton. Transporters are selected at the start of each season by region on the basis of competitive bidding and written contracts obtained.

Transporters are given advances for a proportion of the expected cost and submit justifications against these advances or requests for reimbursements. Fuel may be purchased from OHV and this cost is netted off the reimbursable amount.

We noted the following in our examination:

- a. For the period under review OHV did not maintain ledger accounts for each transporter in order to ensure control over the amount disbursed to the transporters in respect of the balance of advances, justifications, reimbursements and fuel purchases.

We understand, however, that this control is now being employed.

- b. For the period under review OHV did not verify the transporters claim to the actual quantities delivered by the transporter to the factory. The OHV agent at the factory completes and submits to OHV returns stating quantities delivered in order for the OHV to ensure proper and accurate payment by the factory for the cotton.

However, these returns were not summarised by transporter by the agent or by OHV and so no verification of actual deliveries was performed prior to disbursement to the transporters.

### Criteria

All disbursements made by OHV to private transporters should be proper and allowable under the Project. That is, only for cotton transported in accordance with contracted price and terms and the actual quantity of cotton transported and delivered.

### Cause

OHV did not, prior to disbursement, vouch the transporters' claims to the individual returns submitted by the OHV agent from the factory, or for disbursements related to the balance on a transporter's account, vouch to the movement of the account to ensure the balance claimed was accurate.

### Effect

The lack of control over ensuring proper verification prior to disbursement creates the risk of undetected over-claims or claims made not in accordance with the contracted terms by the transporters leading to non allowable expenditures out of USAID Project funds.

### Recommendation

The OHV should continue to effectively operate the controls listed above prior to disbursement for the coming and subsequent seasons.

### Project management comments

Mission will review to ensure that procedures noted are applied.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)  
DEVELOPMENT OF HAUTE VALLEE PROJECT (No. 688-0233)

FINANCIAL AND COMPLIANCE AUDIT OF EXPENDITURES CHARGED BY THE OPERATION  
HAUTE VALLE TO THE MALI DEVELOPMENT HAUTE VALLEE PROJECT

FOR THE PERIOD AUGUST 15, 1988 TO APRIL 30, 1991.

4. INDEPENDENT AUDITORS' REPORT ON THE COMPLIANCE WITH  
APPLICABLE LAWS AND REGULATIONS BY THE OHV

We have audited the Fund Accountability Statement of revenues and expenditures recorded by the Operation Haute Vallee (OHV) under the Development of Haute Vallee Project (no. 688-0233) for the period August 15, 1988 to April 30, 1991 (Appendix A) and have issued our report thereon dated January 10, 1992

We conducted our audit in accordance with generally accepted auditing standards and U.S. 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 Fund Accountability Statement is free of material misstatement.

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

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Fund Accountability Statement. The results of our tests of compliance disclosed the following material instance of noncompliance, the effects of which have been shown in Appendix A:

- Expenditures ineligible under applicable Project laws and regulations (Finding 4.2.1);

We considered these material instances of noncompliance in forming our opinion on whether the Fund Accountability Statement for the period is presented fairly, in all material respects, in conformity with the basis of accounting described in Note 1 to the Fund Accountability Statement (Appendix B), for our report on page 11.

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

This report is intended for the information of RIG/A/D. This restriction is not intended to limit the distribution of this report which is a matter of public record.

*Peet Marwick Mitchell & Co*

.....  
Firm's signature

**Chartered Accountants**

Banjul, the Gambia.

January 10, 1992

## 4.2 FINDINGS

### 4.2.1 Non-allowable expenditures

Finding 2.2.1 details ineligible expenditures recorded by the OHV under USAID Project funds relating to the non-compliance with the Project regulations.

#### Project management comments

Refer to response to audit report paragraph 2.2.1.

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**APPENDICES**

- Appendix: A OHV Fund Accountability Statement
- B Notes to the OHV Fund Accountability Statement
- C Differences in Project expenditures by cost category for the period
- D Recommended monthly reporting format for the OHV
- E Recommended schedule of movements of PIL approved amounts
- F Ineligible invoice for the private transportation of non-cotton items (Finding 2.2.1)
- G Acronyms
- H Project Management comments - complete text

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FINANCIAL AND COMPLIANCE AUDIT OF EXPENDITURES CHARGED BY THE OPERATION HAUTE VALLEE  
TO THE MALI DEVELOPMENT OF THE HAUTE VALLEE PROJECT

FOR THE PERIOD: AUGUST 15, 1988 TO APRIL 30, 1991.

APPENDIX A

**OHV Fund Accountability Statement**  
for the period August 15, 1988 to April 30, 1991

(all amounts FCFA)

	<u>Budget</u> <u>FCFA</u>	<u>Actual</u> <u>FCFA</u>	<u>Actual</u> <u>\$</u>	<u>Questioned costs</u>			<u>Ref</u>
				<u>Ineligible</u> <u>FCFA</u>	<u>Ineligible</u> <u>\$</u>	<u>Unsupported</u>	
REVENUE							
Advances & reimbursements received from USAID/Mali		403,036,086	1,343,454				
EXPENDITURE							
02 Construction	42,868,000	30,952,074	103,174				
03 Commodities	72,935,750	67,220,853	224,070	26,250	88		2.2.1
04 Operating costs	136,344,400	148,169,367	493,898	21,703,494	72,345		2.2.1
06 Studies (private transportation)	148,155,000	135,061,937	450,206	15,000,000	50,000		2.2.1
08 Training	62,305,600	18,209,056	60,697				
09 Functional liberacy	8,290,250	908,950	3,030				
	<u>470,899,000</u>	<u>(400,522,237)</u>	<u>(1,335,075)</u>	<u>36,729,744</u>	<u>122,433</u>	<u>0</u>	
Sub-total		2,513,849	8,379				
Difference		525,357	1,751				
Outstanding cash balances at 4.30.91 per cash book		3,039,206	10,131				

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APPENDIX B

OHV Fund Accountability Statement

Notes to the Statement

Note

Description

Basis of accounting

The OHV Fund Accountability Statement has been prepared on the basis of cash accounting whereby revenue is recorded on receipt of funds and expenditure recorded when the related disbursement is made.

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APPENDIX C

Differences in OHV and USAID/Mali Project expenditure by cost category  
for the period August 15, 1988 to April 30, 1991.

<u>Cost category</u>	<u>Expenditure for the period</u>			
	<u>per OHV</u>	<u>per USAID</u>	<u>difference</u>	<u>% difference</u>
	(1)	(2)		
02	102,844	96,148	6,696	6.5%
03	224,294	234,613	(10,319)	(4.6%)
04	497,326	508,850	(11,524)	(2.3%)
06	442,287	401,119	41,168	9.3%
07	63,057	37,239	25,818	40.9%
09	3,165	60,000	(56,835)	(179.6%)
	<u>\$ 1,332,973</u>	<u>\$ 1,337,969</u>	<u>\$ (4,996)</u>	<u>(0.4%)</u>

Notes

- (1) Disbursements recorded by OHV in FCFA translated into \$ at average rates of exchange: FCFA309-\$1 for August 15, 1988 to October 31, 1989 and FCFA287-\$1 for the period January 1, 1990 to April 30, 1991 for comparison purposes only.
- (2) Disbursements reported by OHV in FCFA translated into \$ by USAID/Mali at the rate at which the related advance was given.

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APPENDIX D

Recommended monthly reporting format for OHV

Movement of funds in Month:

Month:

Prepared by:

Approved by:

(all amounts FCFA)

<u>Total</u>	cost code				
	01			02	03
	<u>PILX</u>	<u>PILX</u>	<u>PILX</u>	<u>PILX</u>	<u>PILX</u>
Balance of unjustified advances at beginning of month					
Disbursements in month					
Transfers and reclassifications in month					
Advances in month					
Balance of unjustified advances and end of month					
	X1				
Reconciling items: (detail)					
<u>OHV</u>					
Balance of Disbursements Journal at month end					
	X1				
<u>Mission</u>					
Balance of MACS advances report at month-end.					
	X1				

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APPENDIX E

Recommended schedule of movements of PIL approved amounts

Quarter:

Prepared by:

Approved by:

(all amounts FCFA)

	<u>Total</u>	<u>cost code</u>			
		<u>01</u>	<u>02</u>	<u>03</u>	
		<u>PILX</u>	<u>PILX</u>	<u>PILX</u>	<u>PILX</u>
PIL approvals balances at beginning of quarter:					
Transfers and reclassifications in quarter					
PILs approved in quarter					
Balance at end of quarter					
<u>Advances</u>					
Advances per PIL at beginning of quarter					
Transfers and reclassifications in quarter					
Advances approved in quarter					
Advances per PIL at end of quarter					
Advances per PIL at end of quarter					
Balance of PILs approved not advanced at quarter end					

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**APPENDIX F**

**Ineligible invoice for private transportation of non-cotton items  
(Finding 2.2.1)**

Mohamed B.B. NIANGADO  
Transporteur  
B.P. - 1884  
BAMAKO

F A C T U R E

OBJET : Opération Haute Vallée (O.H.V.)

Transfert et mise en place des intrants agricoles dans les différents centres de l'Opération Haute Vallée pour la période de Mai à Juillet 1989.

Fertilisants	Complexe coton.....	512,500	Tonnes
	Urée.....	572	Tonnes
	Phosphate d'ammoniaque.....	3	Tonnes
	Insecticides.....	59.000	Litres

soit un Prix Forfaitaire du transport : 15.000.000 F.CFA

Arrêté la présente facture à la somme de : QUINZE MILLIONS DE FRANCS CFA  
( 15.000.000 FCFA)

POUR ACQUIT  
*[Signature]*

Bamako, le 17 Juillet 1989.-  
LE TRANSPORTEUR.-

Mohamed Dan Baba  
NIANGADO  
Transporteur  
B. P. 188  
Télex 2603  
Cercle de  
Mali

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)  
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**APPENDIX G**

**Acronyms**

GRM	Government of the Republic of Mali
USAID	United States Agency for International Development
USAID/Mali	United States Agency for International Development for Mali (also known as the Mission)
RIG/A/D	Office of the Regional Inspector General of Audit, Dakar
DHV	Development of the Haute Vallee (Project No. 688-0233)
OHV	Operation Haute Vallee (DHV implementing agency)
AV	Village Association (Association Villigeiose)

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**APPENDIX H**

**Project Management comments -- complete text**

ACTION: RIG INFO: EXEC

VZCZCDK0805  
OO RUEHDK  
DE RUTABM #0075/01 0061436  
ZNR UUUUU ZZH  
O 061434Z JAN 92  
FM AMEMBASSY BAMAKO  
TO AMEMBASSY DAKAR IMMEDIATE 9861  
BT  
UNCLAS SECTION 01 OF 03 BAMAKO 00075

LOC: 1204 357  
06 JAN 92 1505  
CN: 22078  
CHRG: RIG  
DIST: RIG

ADM AID

FOR: RIG/DAKAR

E.O. 12356: N/A

SUBJECT: NFA AUDIT OF THE DEVELOPMENT HAUTE VALLEE  
- PROJECT NO. 688-0233

1. USAID/MALI HAS REVIEWED THE DRAFT AUDIT REPORT FOR SUBJECT PROJECT AND PROVIDES MISSION COMMENTS, AS FOLLOWS.

2. AUDIT REPORT PARAGRAPH 2.2.1. - QUESTIONED COSTS - INELIGIBLE EXPENDITURES:

A. FINDING:

RECORDING ERROR - EXPENDITURES FOR AUGUST AND SEPTEMBER 1990 OF FCFA 21,703,494 (DOLS. 72,345) BY OHV RECORDED TWICE BY OHV AND USAID/MALI, AS A JUSTIFICATION OF AN ADVANCE AND AS A REIMBURSEMENT. RECOMMENDATION THAT BOTH USAID/MALI AND OHV ADJUST THEIR RECORDS AND THAT THE MISSION KEEP A CONTROL LIST OF CHECKS NUMBERS CITED BY OHV ON ITS VOUCHERS SO AS TO DETECT DUPLICATION OF REIMBURSEMENT REQUESTS OR JUSTIFICATIONS SUBMITTED.

MISSION COMMENT:

MISSION AND OHV RECORDS HAVE BEEN ADJUSTED AS INDICATED. MISSION IS INSTITUTING PROCEDURES TO RECONCILE AND MONITOR ADVANCES WHICH WILL PREVENT FUTURE DUPLICATE PAYMENT.

E. FINDING:

UNAUTHORIZED PURCHASE OF INSECTICIDE BY OHV ON OCTOBER 28, 1989, VALUED AT FCFA 26,250 (DOLS. 88). RECOMMENDATION THAT USAID BE REIMBURSED FOR THE INELIGIBLE EXPENDITURE.

MISSION COMMENT:

IN BUDGETS FOR OPERATING EXPENSES PRESENTED TO USAID BY OHV THERE HAS BEEN A LINE ITEM FOR "PROTECTION OF STOCKS", REFERRING TO CHEMICALS TO BE USED FOR PROTECTION OF SEED STOCKS STORED IN OHV WAREHOUSES. ALTHOUGH THIS WAS NOT INTENDED TO COVER INSECTICIDES, IT

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WAS EASILY SUBJECT TO MISINTERPRETATION WHICH LED TO THE ERROR.

C. F I N D I N G :

UNAUTHORIZED PAYMENT FOR TRANSPORTATION OF FERTILIZER AND INSECTICIDE BY OHV ON JULY 12, 1989 IN THE AMOUNT FCFA 15,000,000 (DOLS. 50,000). RECOMMENDATION THAT USAID BE REIMBURSED FOR THE INELIGIBLE EXPENDITURE.

MISSION COMMENT:

THIS EXPENDITURE OCCURRED BECAUSE THE ORIGINAL SUPPLIER OF THE FERTILIZER AND INSECTICIDE DID NOT DELIVER THEM TO THEIR FINAL DESTINATION AS REQUIRED, THUS NECESSITATING THE HIRING OF A TRANSPORTER TO COMPLETE THE DELIVERIES, AND THEREFORE OHV WILL ATTEMPT TO RECOVER THE AMOUNT FROM THIS SUPPLIER.

3. AUDIT REPORT PARAGRAPH 3.2.1. - INTERNAL CONTROLS - PROCUREMENT CYCLE:

A. FINDING:

FAILURE BY OHV TO CONSISTENTLY APPLY COMPETITIVE BIDDING PROCEDURES IN CASES OF CONTRACTS OR PURCHASES VALUED AT OVER FCFA 3,000,000 (DOLS. 10,000). RECOMMENDATION THAT OHV CONSISTENTLY APPLY SUCH PROCEDURES AND AVOID EMERGENCIES WHICH MIGHT NECESSITATE CIRCUMVENTION OF THE BIDDING PROCESS.

MISSION COMMENT:

SINCE THE PERIOD UNDER AUDIT, OHV HAS WORKED TO IMPROVE ITS PURCHASING AND CONTRACTING PROCEDURES AND IS NOW IN COMPLIANCE WITH THE STATED REQUIREMENTS.

4. AUDIT REPORT PARAGRAPH 3.2.2 - INTERNAL CONTROLS - RECORDING AND REPORTING CYCLE:

A. FINDING:

EXPENDITURES AS REPORTED BY OHV NOT RECONCILABLE WITH THOSE RECORDED BY MISSION DUE TO DIFFERENCES IN TIMING AND IN APPLICATION OF COSTS TO COST CATEGORIES, BUDGETS

AND COMMITMENT DOCUMENTS. RECOMMENDATION THAT USAID/MALI AND OHV ADOPT MEASURES TO PLACE THEIR RECORDING AND REPORTING ON A COMPARABLE BASIS.

MISSION COMMENT:

MISSION WILL UNDERTAKE A STUDY TO DETERMINE PRECISELY WHERE THE DIFFERENCES LIE AND HOW OHV AND MISSION RECORDS MIGHT BE BROUGHT INTO AGREEMENT.

5. AUDIT REPORT PARAGRAPH 3.2.3.1. - INTERNAL CONTROLS INVENTORY AND ASSETS CONTROL CYCLE.

A. FINDING:

OHV DID NOT EMPLOY A SYSTEM OF INTERNAL CONTROLS ADEQUATE TO SAFEGUARD ITS ASSETS AND INVENTORIES. RECOMMENDATION THAT OHV ADOPT AN ASSET REGISTER AND COMPUTER SPREADSHEET OR DATABASE PROGRAM, USING A FORMAT SUGGESTED BY THE AUDITOR IN THE REPORT.

MISSION COMMENT:

USAID WILL FOLLOW UP AND VERIFY THAT THE RECOMMENDED STEPS ARE TAKEN.

6. AUDIT REPORT PARAGRAPH 3.2.3.2. - INTERNAL CONTROL - CREDIT LOANS ISSUED BY BANKS UNDER THE PROJECT'S USAID - FUNDED CREDIT GUARANTEE FUND:

A. FINDING:

OHV HAD FAILED TO REQUIRE QUARTERLY REPORTS BY BANKS ON LOAN ACTIVITIES, HAD FAILED TO OBTAIN CREDIT FOR INTEREST ACCRUED ON FUNDS DEPOSITED WITH BANKS, AND HAD NOT ENSURED THAT FUNDS ARE USED BY THE BANKS FOR THE INTENDED PURPOSE OF GUARANTEEING LOANS MADE TO FARMERS. RECOMMENDATION THAT THE INDICATED MEASURES BE TAKEN BY OH V.

MISSION COMMENT:

CREDIT CONSULTANT HAS BEEN INSTRUCTED TO APPLY THESE MEASURES.

USAID WILL FOLLOW UP AND VERIFY THAT THE RECOMMENDED STEPS ARE TAKEN.

7. AUDIT REPORT PARAGRAPH 3.2.3.2. - INTERNAL CONTROLS - DISBURSEMENTS FOR THE PRIVATE TRANSPORTATION OF COTTON UNDER THE PROJECT.

A. FINDING:

DURING THE PERIOD UNDER AUDIT, OHV DID NOT PROPERLY VERIFY THE CLAIMS OF TRANSPORTERS WHO HAD BEEN GIVEN CONTRACTS FOR THE SAID PRIVATE TRANSPORTATION OF COTTON. HOWEVER, SINCE THE AUDITED PERIOD SUCH VERIFICATIONS HAVE BEEN EMPLOYED. RECOMMENDATION THAT

THE USE OF THESE CONTROL PROCEDURES BE CONTINUED.

MISSION COMMENT:

MISSION WILL REVIEW TO ENSURE THAT PROCEDURES NOTED ARE APPLIED.

8. AUDIT REPORT PARAGRAPH 4.2.1. - COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS - COMPETITIVE BIDDING AND CONTRACTING:

A. FINDING:

DEFICIENCIES IN OHV'S APPLICATION OF COMPETITIVE BIDDING PROCEDURES CITED IN AUDIT REPORT PARAGRAPH 3.2.1. ALSO REPRESENT A FAILURE TO COMPLY WITH APPLICABLE LAWS AND REGULATIONS. RECOMMENDATIONS ARE THOSE WHICH WOULD APPLY TO THE SAID PARAGRAPH.

MISSION COMMENT:

REFER TO COMMENT ON AUDIT REPORT PARAGRAPH 3.2.1.

9. AUDIT REPORT PARAGRAPH 4.2.2. - COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS - INELIGIBLE EXPENDITURES.

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A. FINDING:

INELIGIBLE EXPENDITURES MADE BY OHV CITED IN AUDIT REPORT PARAGRAPH 2.2.1. ALSO REPRESENT A FAILURE TO COMPLY WITH APPLICABLE LAWS AND REGULATIONS. RECOMMENDATIONS ARE THOSE WHICH WOULD APPLY TO THE SAID PARAGRAPH.

MISSION COMMENT:

REFER TO RESPONSE TO AUDIT REPORT PARAGRAPH 2.2.1.

ADDITIONAL COMMENT:

MISSION WOULD LIKE TO NOTE GRM EXPERIENCED DIFFICULTY COMMUNICATING WITH AUDIT STAFF MEMBERS BECAUSE OF INADEQUATE FRENCH LANGUAGE ABILITY.  
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