PD-ABE-570

Regional Inspector General for Audit
Nairobi, Kenya

Audit of the Agricultural Cooperative Development International Grant No. 617-0111-C-IR-9001

Report No. 3-617-92-14-N
July 29, 1992

FINANCIAL INFORMATION CONTAINED IN THIS REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY INFORMATION IS RELEASED TO THE PUBLIC. THIS REPORT IS INTENDED SOLELY FOR THE INFORMATION OF AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL AND THE AGENCY FOR INTERNATIONAL DEVELOPMENT, BUT THIS IS NOT INTENDED TO LIMIT THE DISTRIBUTION OF THE REPORT, IF A MATTER OF PUBLIC RECORD.

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

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NAIROBI, KENYA

July 29 1992

memorandum

TO: Keith W. Sherper, Director, USAID/Uganda

FROM: Joseph Farinella, Acting RIG/A/Nairobi

SUBJECT: Audit of the Agricultural Cooperative Development International Grant No. 617-0111-G-IR-9001, Audit Report No. 3-617-92-14-N

Attached are five copies of a mission-contracted financial audit report of the Agricultural Cooperative Development International (ACDI) Grant No. 617-0111-G-IR-9001. The accounting firm of Price Waterhouse, Nairobi performed the audit.

The goal of the Cooperative Agriculture and Agribusiness Support (CAAS) Project is to raise the standard of living in Uganda through increased agricultural productivity and production. The CAAS project has two major components: (1) the $11 million cooperative development component to provide assistance for improving policies and institutional performance so that input distribution and commodity marketing can be done with greater efficiency and effectiveness, and (2) the $9.55 million commodity import component to address short term foreign exchange constraints while increasing the availability of essential agricultural sector inputs such as seed, jute, fertilizer and other agricultural inputs.

To support the CAAS project, USAID/Uganda provided $10 million for the importation of soybean oil (vegoil) under a Public Law - 480 Title II Program. Technical assistance, training and acquisition of project commodities are provided by the prime contractor, Agricultural Cooperative Development International (ACDI), which is also responsible for the importation and sales of vegoil and for the management of local currency funds generated. For the period September 20, 1989 to September 30, 1991 Uganda Shillings (Ushs) 3,555,795,940 ($7,029,210) was disbursed under this grant. This was the amount audited.

-a-

The objectives of the audit were to:

- examine and express an opinion on ACDI's Fund Accountability Statement;
- examine and report on ACDI's internal control structure; and
- examine and report on ACDI's compliance with the terms of the grant agreement and applicable laws and regulations.

The auditors issued a qualified opinion on the Fund Accountability Statement. The auditors considered $447 of expenditures to be unsupported. The report on the internal control structure disclosed the following reportable conditions:

(a) spending overruns of budget line items;

(b) improperly reconciled cash, operating and sales accounts;

(c) staff member approval of his own advances and improper accounting for such advances; and

(d) vegoil sales awarded to a bidder whose bid was below the minimum required, resulting in a shortfall of sales revenue.

The report on compliance noted that ACDI did not comply with:

(a) its advisory responsibilities related to the Cooperative Bank's management of the project's loan portfolio, and

(b) its accounting responsibility for the importation of vegoil as it could not account for the dollar equivalent of $48,233 worth of vegoil.

The draft audit report was submitted to ACDI and USAID/Uganda for comment. ACDI and USAID/Uganda submitted joint comments which are included in Appendix I of the report. We are including the following recommendations in the Office of the Inspector General audit recommendation follow-up system.

> **Recommendation No. 1: We recommend that USAID/Uganda determine the allowability and recover, as appropriate, Ushs 193,300 ($447) in unsupported costs from Agricultural Cooperative Development International.**

Recommendation No. 2: We recommend that USAID/Uganda require Agricultural Cooperative Development International to improve its internal control structure and compliance with its grant agreement under the Public Law - 480 Title II Program of the Cooperative Agriculture and Agribusiness Support Project by establishing and implementing procedures for:

2.1 restricting its line item expenditures to the approved budget or seeking advance approval of any variations;

2.2 reconciling all accounts on a monthly basis to detailed parallel records and reconciling vegoil sales to funds ultimately received and banked;

2.3 ensuring that all advances are approved by an authorizing official and accounted for in a timely manner;

2.4 ensuring that only successful bidders meeting minimum bid values are awarded vegoil sales; and

2.5 following up on loans it has approved for the Cooperative Bank to ensure satisfactory performance.

Recommendation No. 3: We recommend that USAID/Uganda determine the causes of unaccounted for amounts of imported vegoil and recover, as appropriate, $48,233 from Agricultural Cooperative Development International representing the dollar value of 42.753 metric tons of vegoil.

We consider Recommendation No. 1 unresolved pending receipt of a plan for corrective action. USAID/Uganda concurred with Recommendation No. 2 and has taken action which adequately addresses all issues. Therefore, Recommendation Nos. 2.1, 2.2, 2.3, 2.4 and 2.5 are considered closed. Recommendation No. 3 is considered unresolved. It will be resolved when the Mission agrees to the dollar amount contained in the recommendation and agrees that a claim will be submitted for any unallowable amount. It will be closed when the Mission provides RIG/A/N with documentation that a claim for any unallowable amount has been made. Please respond to this report within 30 days indicating actions planned or already taken to implement Recommendation Nos. 1 and 3.

Thank you for the cooperation extended to Price Waterhouse and Regional Inspector General for Audit representatives during the audit.

Attachments: a/s.

AUDIT OF THE
AGRICULTURAL DEVELOPMENT INTERNATIONAL
GRANT NO. 617-0111-G-IR-9001

ATTACHMENTS

Attachment I

AGENCY FOR INTERNATIONAL DEVELOPMENT

COOPERATIVE AGRICULTURE AND AGRIBUSINESS
SUPPORT PROJECT UGANDA
(PROJECT NO 617-0111)

FINANCIAL AND COMPLIANCE AUDIT OF AGRICULTURAL COOPERATIVE
DEVELOPMENT INTERNATIONAL (ACDI)
(GRANT NO 617-0111-G-IR-9001)

FOOD FOR PEACE/PL 480 MONETIZATION

FOR THE PERIOD SEPTEMBER 20, 1989
THROUGH SEPTEMBER 30, 1991

MAY 20, 1992

COOPERATIVE AGRICULTURE AND AGRIBUSINESS SUPPORT PROJECT

FINANCIAL AND COMPLIANCE AUDIT OF AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL (ACDI)

FOR THE PERIOD SEPTEMBER 20, 1989 THROUGH SEPTEMBER 30, 1991.

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APPENDIX I - MISSION COMMENTS

I EXECUTIVE SUMMARY

A Cooperative Agriculture and Agribusiness Support Project (CAAS)

The goal of the Cooperative Agriculture and Agribusiness Support (CAAS) Project is to raise the standard of living in Uganda through increased agricultural productivity and production. The project objectives are (i) to increase agricultural productivity and production through increased supply of agricultural inputs (ii) to help place input supply and output marketing on a sound commercial basis, and (iii) to stimulate agribusiness development.

The CAAS project has two major components: the $11 million cooperative development component to provide assistance for improving policies and institutional performance so that input distribution and commodity marketing can be done with greater efficiency and effectiveness, and the $9.55 million commodity import component to address short term foreign exchange constraints while increasing the availability of essential agricultural sector inputs such as seed, jute, fertilizer and other agricultural inputs.

To support the CAAS project, USAID/Uganda provided $10 million for the importation of soybean oil (vegoil) under a PL 480 Title II Program.

Technical assistance, training and acquisition of project commodities are provided by the prime contractor, Agricultural Cooperative Development International (ACDI), who are also responsible for the importation and sales of vegoil and for the management of local currency funds generated.

The PL 480 grant started on September 20, 1989. Our audit covered only local Uganda Shillings from September 20, 1989 to September 30, 1991. The value of disbursements to ACDI in this period was UShs 503,539,200 ($998,846).

The Uganda Cooperative Alliance (UCA) is the central organization for over 5,000 Ugandan cooperatives, with a membership of 1.6 million. The CAAS project is implemented through the UCA, with assistance from its already established Cooperative Development Programs involving Cooperative Development Section, Cooperative Women Section, Education and Training Section and UCA Business Service Ltd. UCA is coordinating the Primary Society Matching Grant Program which provides assistance to societies on a 50:50 matching basis for the purpose of (i) renovating or expanding society facilities and (ii) providing financial support for new or expanding economic activities which directly benefit the farm members of the society.

B **Accounting and Contract Monitoring Systems**

The overall responsibility for accounting and financial monitoring resides with ACDI/Washington.

For local expenditures, ACDI yearly submits a budget to the CAAS Core Committee. This committee, which is comprised of the USAID Project Officer, the Project Coordinator from the Ministry of Commerce, Cooperatives and Marketing, and the General Secretary of the Uganda Cooperative Alliance, authorizes all Uganda Shilling expenditures generated from the program. Once approval has been given, ACDI may spend up to the limit without submitting monthly/quarterly reports. The drawdowns taken are usually irregular, and are made when adequate funds are available.

Under the PL 480 agreement, ACDI is allowed up to 10% of total local currency revenue generated by vegoil monetization for project support in the host country.

The original supporting documentation for local currency transactions is maintained by ACDI field office in Kampala.

An internal review has been performed twice by UCA Auditing Services during the life of the project. These reports have been reviewed. UCA later requested an independent audit of the PL 480 project and this report has not been seen. ACDI/Washington is audited by an independent auditing firm.

C **Audit Objective and Scope**

Price Waterhouse has performed a financial and compliance audit of the local costs claimed by Cooperative Agriculture and Agribusiness Support Project: Grantee Agricultural Cooperative Development International (ACDI) for the period September 20, 1989 through September 30,1991.

The objectives of this audit were to:

- review direct costs to assure the propriety and allowability of charges to USAID
- determine whether the contractor or grantee has complied with applicable laws, regulations and terms of the contract agreement
- identify and evaluate internal controls

- prepare audit reports analyzing areas in need of improvement, proposing recommendations and itemizing costs accepted, questioned and unsupported.

Our examination was performed in accordance with generally accepted auditing standards and the standards contained in the Government Auditing Standards by the Comptroller General of the U.S. (1988 revision) and, accordingly, included such tests of the contractor's data and records and other auditing procedures as were considered necessary in the circumstances. The audit was performed under the supervision of the Regional Inspector General audit office based in Nairobi. Price Waterhouse auditors also adhered to the guidelines contained in various chapters of the "Guidelines for Financial and Compliance Audits of AID - Financed Agreements" and "Guidelines for Audits of Federal Awards to Non Profit Institutions".

A team from Price Waterhouse Nairobi visited Kampala from November 4 to November 6, 1991 to perform the preliminary survey. The purpose of the survey was to secure an understanding of the grant recipient's accounting system, assess the overall strength of the system of internal controls, estimate the extent of compliance with the grant provisions and procurement regulations and determine the degree to which supporting documentation would be available to the audit team. The survey provided the groundwork from which Price Waterhouse developed its detailed audit work plan.

Price Waterhouse made further visits to Kampala from November 11 to November 27 and December 16 to December 18, 1991.

The terms of the grant agreement and the cost principles contained in the applicable U.S. Government regulations were used as criteria in the determination of unsupported or questioned costs.

The scope of the audit consisted of the following:

- selective examination and testing of supporting documentation of field and headquarters office expenditures

- a review of ACDI's Uganda Shilling transactions for compliance with the Grant Agreement and applicable laws and regulations

- a study and evaluation of the internal accounting controls and accounting practices of ACDI to the extent necessary to render an opinion on the Uganda Shilling component of the Fund Accountability Statement

- a review of the grant agreements, implementation letters, implementation reports, handbooks, relevant government regulations and other related documents.

D **Audit Limitations**

The work was performed only on the Uganda Shilling component of the grantee expenditure. All documentation on U.S. Dollar costs is retained in Washington, DC.

ACDI in Kampala does not submit U.S. Standard Form 1034s. Annually it submits a budget to the CAAS Core Committee, who approves all Shilling expenditures generated from the program. ACDI does not account for their advances and receives money at irregular intervals throughout the year.

In instances of conflict between what is generally allowable under USAID regulations and what is approved by the CAAS Core Committee, we have accepted the CAAS Core Committee's decision as they have the responsibility of disbursing the Uganda Shillings generated. The USAID Project Officer is a member of the CAAS Core Committee and therefore has knowledge of the budget and its contents.

Of expenditures totalling (UShs 3,555,796,000) to date only UShs 503,539,200 (14%) related to ACDI expenditures. Other expenditures relate to loans made by UCA from local currency generated. We have reviewed the system in place for granting/issuing loans, but at the audit date, too few loans were due for maturity for us to comment on the success of the loan portfolio.

E **Results of the Audit**

1 **Costs reported by Cooperative Agriculture and Agribusiness Support Project.**

We performed a financial and compliance audit for the Fund Accountability Statement relating to the Grant Agreement on the Cooperative Agriculture and Agribusiness Support Project: Grantee ACDI for the period of September 20, 1989 through September 30, 1991.

We identified certain transactions described in Note 2 to the Fund Accountability Statement (Section II) that, in our opinion, are unsupported. This amounted to UShs 193,300 under the line item "Operating Expenses". No costs were questioned. At the time of expenditures, the U.S. Dollar equivalent of UShs 193,300 was $415.

These unsupported costs and the limitations mentioned in Section D affected our opinion on the Fund Accountability Statement examined by us. The full text of our opinion is presented in Section II.

2 **Internal Accounting Controls**

We made a study and evaluation of the system of internal accounting controls to the extent we considered necessary and required by generally accepted government auditing standards.

Our study and evaluation was designed to determine the nature, timing and extent of auditing procedures necessary for expressing an opinion on the Fund Accountability Statement. We do not, however, express an opinion on the system of internal accounting controls of ACDI or on any individual categories. The full text of our opinion is presented in Section III.

During the course of our audit the following internal control weaknesses were noted:

I Some vouchers were approved and processed without supporting documentation. We also noticed that a staff member approved his own advances and did not properly account for them.

II The Monthly Reporting Package is poorly prepared. Many instances of problems were noted - poor cut off at month ends, inaccurate keying in of data, non-reconciliation of computerised bank balances to manual values. The errors were numerous enough to make the accuracy of some monthly reports questionable.

III Improper Sales - We noticed an instance where a bidder who had winning bids under one category also collected Vegoil under a different category where their bid was below the cut-off value. This led to a shortfall in the total revenue that should have been received.

IV No reconciliations are performed from each vegoil tender to the revenue received and banked. If ACDI maintained a ledger to identify quantity awarded, deposit paid and balance paid then management would be able to review each tender and ensure that proceeds are banked in full.

Reconciliations should also be performed on the movement of stock. The amount of vegoil deposited should be accounted for in full.

V Instances were noted where original invoices were not stamped PAID to indicate that the transaction is now complete and should be cancelled. This control is critical to distinguish paid from unpaid documents.

VI Bank reconciliations are not performed for the Holding Accounts. ACDI does not maintain a Cash Book for the Holding Accounts, but only agrees revenue to deposits from bank pay-in slips. UCA is responsible for withdrawals from these accounts but does not maintain a Cash Book or follow up on withdrawals to the Bank Statement.

VII No reconciliations are performed for the computerised Operations Account and Petty Cash balances against the manual reconciled balances. Differences were noted between the two values.

VIII Certain Monthly Reports were not available as they had been misplaced. No new copies were available as the files had been removed from the hard disk. Management should ensure that the hard copy of documents are maintained safely and that adequate back ups for computer files are retained.

IX Budgets - The annual budget submitted to the CAAS Core Committee, is not followed closely, and we noted certain instances where the difference between the amount budgeted and expended was considerable. There appears to be inadequate planning put into the budgeting process.

3 Compliance With Cooperative Agreement Terms

Except as noted below, ACDI complied with those provisions of the Agreement, Laws and Regulations, non-compliance with which could have a material effect on the Fund Accountability Statement. However, we noted certain minor issues that we believe warrant the action of ACDI as described in the audit findings.

These issues are:

i) Under the agreement, 28% of expenditures are to be allocated to the Purchase and Rehabilitation of Fixed Assets. Due to problems securing properties, and while awaiting actions from the Departed Asians Property Custodian Board, expenditures have not matched the percentage budget. The CAAS Core Committee reduced the percentage to 18%, but cannot reduce it further without USAID approval. Currently, expenditures are approximately 10% and are not likely to rise markedly.

ii) Under the agreement, ACDI is the advisor to the project on loan disbursements. Information has been received slowly from the Cooperative Bank branches and information on loan performance is erratic. The situation became untenable and a freeze on new loans was introduced. It was also noted that the loan portfolio produced by the Cooperative Bank was different from that produced by ACDI. ACDI should not only approve loans, but also follow them up to ensure that performance is satisfactory. If need be, ACDI should help the Cooperative Bank collect the information and offer advice on the presentation of information. Currently the reports issued from the three regions all follow different formats.

iii) ACDI retains responsibility for the importation of oil. A reconciliation showed that 42.753 metric tons (MT) could not be accounted for. This may be due to underclaims on insured losses, wrong conversion rates used for sales in Jerrycans or warehouse losses. The value of the stock unaccounted for is $48,232.

(iv) We observed that approval from the CAAS Core Committee was at times possibly in conflict with normal USAID regulations in such matters as line item expenditure and exceeding local budget line items.

In such instances we have agreed with the CAAS Core Committee's decision as they have the responsibility of disbursing the locally generated Uganda Shillings.

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COOPERATIVE AGRICULTURE AND AGRIBUSINESS SUPPORT PROJECT UGANDA

REPORT ON FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITOR'S OPINION

We have performed a financial audit of the Grant Agreement Cost Accountability Statement of the Cooperative Agriculture and Agribusiness Support Project: Grantee ACDI for the period September 20, 1989 to September 30, 1991.

This financial statement is the responsibility of the auditee's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

As described in Note 1, this financial statement was prepared in conformity with the accounting practices prescribed or permitted by the USAID Grant Agreement and Applicable Laws and Regulations, which is a comprehensive basis of accounting other than generally accepted accounting principles.

We have identified certain expenses and transactions described in Note 2 that, in our opinion, are unsupported for reimbursement under the Grant Agreement between ACDI and the United States Agency for International Development. These costs have been identified on the Fund Accountability Statement.

In our opinion, except for the amounts described in Note 2, and except for differences between USAID regulations and CAAS Core Committee approvals as described in Section D to the Executive Summary, the Fund Accountability Statement examined by us presents fairly the local Uganda Shilling expenditures claimed by ACDI in relation to the Grant Agreement and Applicable Laws and Regulations with the United States Agency for International Development for the period September 20, 1989 to September 30, 1991.

A list of partners is available from the above address

Information contained in this report may be privileged. The restriction of 18 USC 1905 should be considered before any information is released to the public.

This report is intended solely for the use of the United States Agency for International Development and the management of ACDI and should not be used for any other purpose.

December 18, 1991

Price Waterhouse

COOPERATIVE AGRICULTURE AND AGRIBUSINESS SUPPORT PROJECT UGANDA
GRANTEE - ACDI

FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD SEPTEMBER 20, 1989 TO SEPTEMBER 30, 1991

	AMOUNT DISBURSED USHS	AMOUNTS ACCEPTED USHS	RECOMMENDED QUESTIONED USHS	TO BE UNSUPPORTED USHS	REFERENCE
Operating Expenses	503,539,200	503,345,900	-	193,300	2.1
Purchase/Rehabilitation of Fixed Assets	279,000,000	279,000,000			
Agro Business Development	420,658,210	420,658,210			
Production Credit	406,000,000	406,000,000			
Crop Finance for Non Traditional Crops	636,500,000	636,500,000			
Agriculture Inputs	375,000,000	375,000,000			
Human Resource Development	335,000,000	335,000,000			
Union Export Finance	600,000,000	600,000,000			
Bank charges	98,530	98,530			
	3,555,795,940	3,555,602,640	-	193,300	
US$ Equivalent	7,029,210	7,028,763		447	

We reviewed the system for making loans from the CAAS Core Committee account. Apart fro line item "Operating Expenses" we did not perform any detailed testing on the other expenditures.

The US Dollar equivalent is calculated by taking the average exchange rate over the life of the project at 505/86 : $1. Unsupported costs have been converted at the rate prevailing at the time of expenditure.

COOPERATIVE AGRICULTURE AND AGRIBUSINESS SUPPORT PROJECT

NOTES TO FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD SEPTEMBER 20, 1989 TO SEPTEMBER 30, 1991

NOTE 1: Nature of Operation and Summary of Significant Accounting Policies

The CAAS project has two major components. The $11 million cooperative development component is designed to provide assistance for improving policies and institutional performance so that input distribution and commodity marketing can be done with greater efficiency and effectiveness. The $9.55 million commodity import component is designed to address short term foreign exchange constraints while increasing the availability of essential agricultural sector inputs such as seed, jute, fertilizer and other agricultural inputs.

To support the CAAS project USAID/Uganda provided $10 million for the importation of Soybean oil under a PL 480 Title II Program.

The Uganda Cooperative Alliance (UCA) is the central organisation for over 5,000 Ugandan Cooperatives with a membership of 1.6 million. The CAAS project is implemented through the UCA with ACDI as the prime contractor.

Accounting Records

The overall responsibility for accounting and financial monitoring of the CAAS project resides with ACDI/Washington.

For local expenditures, ACDI yearly submits a budget to the CAAS Core Committee. This committee, which is comprised of the USAID Project Officer, the Projects Coordinator from the Ministry of Commerce, Cooperatives and Marketing and the General Secretary of the Uganda Cooperative Alliance, authorizes all Uganda Shilling expenditures generated from the program. Once approval has been given, ACDI may spend up to the limit without submitting monthly/quarterly reports. The drawdowns taken are usually irregular and are made when adequate funds are available.

In instances of conflict between what is normally allowable under USAID regulations and what is approved by the CAAS Core Committee, ACDI follows the CAAS Core Committee's decision as they have been delegated the responsibility of disbursing the Uganda Shillings generated by the program. The USAID Project Officer is a member of the CAAS Core Committee and therefore has knowledge of the budget and what it contains.

Under the PL 480 agreement ACDI is allowed up to 10% of total local currency revenue for project support in the host country.

NOTE 2

Questioned and Unsupported Costs

A summary of costs which in our opinion are unsupported for reimbursements under the terms of the Grant Agreement is presented below.

2.1 Operating Expenses

DATE	DETAILS	AMOUNT UShs	$
January 1990	M Tefula	30,000	80
March 1990	M Tefula	25,000	66
July 1990	T Auko	118,300	269
March 1991	M Tefula	20,000	32
		193,300	447

The above relates to staff cash advances that did not have supporting documentation when expended. We recommend that ACDI recover the funds from the staff involved, for repayment to the CAAS Core Committee.

The audit fieldwork did not reveal any costs which we would classify as questioned.

Mission Response

Mission concurs with ACDI that action has been implemented to recover these funds.

Auditors Response

The Mission should ensure that all funds are either repaid or supporting documentation produced before considering the costs allowable.

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COOPERATIVE AGRICULTURE AND AGRIBUSINESS SUPPORT PROJECT

INDEPENDENT AUDITORS REPORT ON INTERNAL ACCOUNTING CONTROLS

We have performed a financial audit of the Grant Agreement Fund Accountability Statement relating to the Cooperative Agriculture and Agribusiness Support Project Grantee ACDI for the period September 20, 1989 to September 30, 1991 and have issued our report there on dated December 18, 1991.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the Unites States (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statement of ACDI for the period September 20, 1989 to September 30, 1991, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

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

- monetization of PL 480 commodities

- direct costs in local currency charged to the grant.

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

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

The following reportable conditions were observed:

- staff members approving their own advances and failing to account for them properly

- poor preparation of the monthly package

- bidders awarded vegoil under one category collecting vegoil from a different category where their bid was below the cut-off value

- no reconciliations are performed for either the monetary or physical aspects of each tender.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. 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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned function.

We did not find any matters involving the internal control structure and its operation that we consider to be material weaknesses, as defined above.

We also noted other matters involving the internal control structure and its operation which should be addressed by the management of ACDI. Our findings and recommendations are presented in the following pages.

Information contained in this report may be privileged. The restriction of 18 USC 1905 should be considered before any information is released to the public.

This report is intended solely for the use of ACDI and the United States Agency for International Development, and should not be used for any other purpose.

December 18, 1991

Price Waterhouse

COOPERATIVE AGRICULTURE AND AGRIBUSINESS SUPPORT PROJECT

REPORT ON INTERNAL CONTROLS

1 Voucher Approval

Finding

Some vouchers were approved and processed without supporting documentation. We noted that a staff member approved his own advances and did not properly account for them.

Recommendation

No staff cash advances should be cleared or approved without adequate documentation, ie. invoice/receipt. If the staff member cannot produce such a document, then it should be considered a staff loan. Staff members should not approve their own advances without countersigning by the Project Team leader. ACDI should follow up all staff advances and loans made, and ensure they are accounted for in full.

2 Monthly Report Package

Findings

The monthly reporting package is poorly prepared. We noted instances of inaccurate keying in of data, poor cut offs at month end, and non reconciliation of manual bank balances to computerised balances. The errors were numerous enough to make the accuracy of some reports questionable.

Recommendation

During 1992, ACDI should agree on the opening bank balance for August 1, 1991 and any other "Balance Sheet" items. This should be offset with a suspense account. The rest of the transactions are revenue and expenditure journal vouchers. These vouchers should be checked and reinputed to the system. Each month, the Trial Balance and Income Statement should be printed with the Operations and Holding Bank figures agreed to the manual reconciled value.

A manual set of income and expenditure accounts should also be maintained for verification purposes and agreed to the computerised print out. Once 1991/92 is completed, ACDI should go back and complete 1990/91.

3 **Improper Sales**

Findings

We discovered an instance where a bidder had been awarded Vegoil under one category but also collected Vegoil under a different category where their bid was below the cut-off value. This arose because losing bids were not deleted from the bidding document.

Recommendation

On awarding the vegoil under the different categories, ACDI should ensure that all unsuccessful bids are deleted from the bidders document.

4 **Sales Reconciliation**

Findings

No reconciliations are performed for each tender of sales against revenue received and banked, or for the physical vegoil inputs against outputs. In one instance funds banked were UShs 1,154,211/- while the receipt was made out for UShs 1,182,646/-

Recommendation

ACDI should maintain a ledger to identify quantities awarded, deposits paid and balance paid, in addition to suitable reference details. Management would be able to review each tender and ensure that proceeds are banked in full and agreed with the computer print outs. Such reconciliations would also highlight over-payments and refunds payable and any shortfalls in funds received. ACDI should consider promptly refunding deposits instead of off-setting excess deposits against future tenders.

ACDI should reconcile the stock inputs against sales and the closing stock balance after each tender sale.

5 **Cancelling of Paid Documents**

Findings

ACDI does not always stamp documents as having been paid to indicate that the transaction is now complete. This control is needed to ensure that paid and unpaid documents are distinguishable and to prevent inadvertent double payments.

Recommendation

Management should ensure that all documents are marked when paid to indicate cancellation.

6 **Bank Reconciliations - Holding Accounts**

Findings

ACDI does not keep a Cash Book to record receipts although they agree deposits to bank pay-in slips. UCA, who is responsible for withdrawals (loan disbursements), does not retain a cash book for payments. Bank reconciliations are therefore not performed.

Recommendation

ACDI should maintain a Cash Book in which all transactions are recorded, as well as retaining the check book. Checks would be issued upon receipt of adequate supporting documentation from UCA. ACDI staff should then perform reconciliations on a timely basis. ACDI should also maintain the Holding Accounts on their computerized package and reconcile the balances against the manual reconciliations.

7 **Bank Reconciliation - Operations Account/Petty Cash**

Findings

The Operations Account and Petty Cash manual balances are different from the computerised values. No reconciliations are performed between the two balances.

Recommendation

ACDI should continue to maintain a manual cash book and petty cash book and reconcile the month end manual balances and computerised balances for the Operations Account and Petty Cash figures. Reconciliations would help identify stale checks that may not be accounted for properly and other accounting errors.

8 **Report Security**

Findings

Certain monthly activity reports were missing. We requested that copies be printed in order to complete the testing. It appears that once printed the computer files are not maintained and are deleted from the hard disc.

Recommendation

A hard copy of documentation and back up diskettes should be retained for the monthly activity report.

Budgets

Findings

We reviewed expenditures against budgets and found certain large differences including some considerable overruns.

Recommendations

ACDI should carefully consider their budget during the planning stage and should limit spending to the values approved by the CAAS Core Committee, or seek committee approval to exceed the budget.

Note

Under the PL 480 agreement ACDI is allowed up to 10% of total revenue for local project support. To date their expenditure is approximately 8.5%. By not taking the full 10%, ACDI has released another UShs 100,000,000 to the project.

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COOPERATIVE AGRICULTURE AND AGRIBUSINESS SUPPORT PROJECT

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH GRANT AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

We have performed a financial audit of the Grant Agreement Fund Accountability Statement of the Cooperative Agriculture and Agribusiness Support Project Grantee ACDI for the period September 20, 1989 to September 30, 1991 and have issued our report thereon dated December 18, 1991. Our examination was made in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement are free of material misstatement and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of ACDI is responsible for compliance with the terms of the Grant Agreement and applicable laws and regulations. In connection with our examination referred to above we selected and tested transactions and records to determine the organization's compliance with agreement terms and applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, for the Ugandan transactions and records tested, ACDI complied with those provisions of the Grant Agreement and laws and regulations non-compliance with which could have a material effect on the Fund Accountability Statement. However, we noted certain issues that we believe warrant the attention and action of ACDI as described in the Audit Findings Sections. Nothing came to our attention that caused us to believe that, for the items not tested, ACDI was not in compliance with laws or regulations or provisions of the Grant Agreement, with which noncompliance could have a material effect on the above Fund Accountability Statements.

Information contained in this report may be privileged. The restriction of 18 USC 1905 should be considered before any information is released to the public.

This report is intended solely for the use of the United States Agency for International Development and the management of ACDI and should not be used for any other purpose.

Price Waterhouse

December 18, 1991

A list of partners is available from the above address

COOPERATIVE AGRICULTURE AND AGRIBUSINESS SUPPORT PROJECT

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

1 Expenditure by Line Item

Findings

Under the agreement, 28% of expenditure is to be allocated to the Purchase and Rehabilitation of Fixed Assets. The project intent was to help the Government of Uganda finance the purchase of assets from the Departed Asians Property Custodian Board. Due to logistical problems the purchases and rehabilitation has not happened as quickly as expected.

The CAAS Core Committee approved a reduction from 28% to 18%, but cannot reduce it further without USAID approval.

Currently expenditure is approximately 10% and is not likely to rise markedly.

Recommendation

ACDI should request the CAAS Core Committee to submit a proposal to USAID/Uganda for a reduction in the percentage expenditure on Purchase and Rehabilitation of Fixed Assets to a level that can be realistically achieved. The surplus funds could then be transferred to other line items where disbursements can be readily made.

2 Loan Management

Findings

Under the agreement, ACDI is the advisor to the project on loan disbursements. Loan data has been received slowly from the Cooperative Bank, mainly due to problems in getting information from the branches. The branches have in turn suffered from a lack of logistical support. Overall, information has been received on an erratic basis. The situation became untenable and a freeze on new loans was introduced until the Cooperative Bank was able to produce loan status reports from the three regions. Further the loan portfolio produced by the Cooperative Bank HQ did not agree to that produced by ACDI.

Recommendation

ACDI should not only approve loans but also follow up on them to ensure that performance is satisfactory. ACDI/UCA should help the Cooperative Bank collect the necessary data. The CAAS Core Committee should give consideration to giving the Cooperative Bank a loan/grant to help defray the costs of Bank Officials' visits to Cooperatives to collect data and review the trading situation at the branch level. Advice on the presentation of loan information is also required, and should be standardized. Currently the reports issued from the three regions all follow different formats.

3 **Delivery of Vegoil**

Findings

ACDI is responsible for the importation of vegoil from the United States. Of the 10,048.971 MT imported, 42.753 MT (0.425 of 1%) could not be accounted for. The difference perhaps lies with underclaiming of insurance losses, conversion difference when reconstituting into Jerrycans and warehouse losses.

Recommendation

ACDI should substantiate the shortfall of vegoil to USAID or refund the dollar equivalent to USAID ($48,233).

4 **CAAS Core Committee decisions and USAID regulations**

Observation

We observed that approval from the CAAS Core Committee was at times in conflict with normal USAID regulations in such matters as line item expenditure allowability and exceeding local budget line items.

In such instances we have agreed with the CAAS Core Committee's decision as the committee - comprising of the USAID Project Officer, Project Coordinator from the Ministry of Commerce' Cooperatives and Marketing and the General Secretary of the Uganda Cooperative Alliance - have the responsibility of disbursing the locally generated Uganda Shilling.

The express applicability of USAID procurement regulations to the disbursement of counter-part funds held by the Host Country is unclear.

Appendix I

Mission Comments

B. Agricultural Cooperative and Development International (ACDI) $10.0 Million FOOD FOR PEACE/PL480 MONETIZATION PROGRAM

1. FINDING: Some vouchers were approved and processed without supporting documentation. It is recommended that staff cash advances should not be cleared or approved without adequate documentation.

RESPONSE: Concur. This did happen in the past for vehicle fuel. The issue was resolved in December 1991. A fuel account has been set-up for all project vehicles at a local petrol station. Effective immediately no voucher will be approved unless it is accompanied with detailed and adequate supporting documentation. One of the staff members who was advanced USh. 118,300 (as per your Note 2 of the Cost Accountability Statement) has agreed to repay this outstanding advance in the second quarter of 1992.

RECOMMENDATION: Action has been implemented to resolve these items. It is thus recommended that these issues be considered resolved and closed.

2. FINDINGS: The monthly reporting package is poorly prepared. We noted instances of inaccurate keying of data, poor cut-off at month ends, and non-reconciliation of manual bank balances to computerized balances. It is recommended that during 1992, ACDI should agree on the opening balance for August 1, 1991 and any other "Balance Sheet" items. Any differences should be offset with a suspense account. The rest of the transactions are revenue and expenditure journal vouchers. These vouchers should be checked and reinputed to the system. Each month, the Trial Balance and Income Statement should be printed with the Operations and Holding Bank figures agreed to the manual reconciled value. A manual set of income and expenditure accounts should also be maintained for verification purposes and agreed to the computerized print out. Once 1991/92 is completed ACDI should go back and complete 1990/91.

RESPONSE: Concur. All records will be cut off on the last business day of the month as a matter of standard procedure. All data from September 1st (year-end being August 31) 1991 has already been reinputed into the system and is now fully reconciled. The manual and computerized records since September 1st are reconciled and balance with each other.

Work on the 1990/91 transactions is now in progress and completion is anticipated in the third quarter of 1992.

RECOMMENDATION: That this issue be considered resolved and closed.

3. **FINDING: There was an instance where a bidder had been awarded Vegoil under one category but also collected Vegoil under a different category where their bid was below the cut-off value. It is recommended that upon awarding the vegoil under the different categories, ACDI should ensure that all unsuccessful bids are deleted from the bidders document.**

RESPONSE: Concur. Changes have been made to assure that improper sales are not awarded. All bids are put into the computer and sorted by highest amount bid per bidder. A determination can then be made as to whom makes up the quantity to be sold. This is done by pack size for the total tender quantity being sold. Cross checking is done by referencing to the bid sheet, tender register, tender check list and computer summary print-out.

RECOMMENDATION: That this issue be considered resolved and closed.

4. **FINDING: No reconciliations are performed for each tender of sales against revenue received and banked, or for the physical vegoil inputs against outputs. It is recommended that ACDI maintain a ledger to identify quantities awarded, deposits paid and balances paid, in addition to suitable reference details. ACDI should consider promptly refunding deposits instead of off-setting excess deposits against future tenders. ACDI should reconcile the stock inputs against sales and the closing balance after each tender sale.**

RESPONSE: Concur. Full reconciliation of revenue received versus revenue due have been made since Tender Call #24 dated 11/27/91. Reconciliation will be performed on all future tender sales. Comparisons are being compiled on actual monies collected versus monies expected from the computer summary of sales awarded and due. Over-payments are being summarized and identified to a reconciled total. Individual refunds also will be made on the respective over-payments. Physical stock counts are performed each week and compared to book inventory.

RECOMMENDATION: That this issue be considered resolved and closed.

5. **FINDING: ACDI does not always stamp documents as having been paid to indicate that the transaction is now complete. It is recommended that Management ensure that all documents are marked when paid to indicate cancellation.**

RESPONSE: Concur. A "paid" stamp is now maintained in the accounts section. It is now used on all documents to avert double payments. All vouchers are now also reviewed monthly to assure that the" paid" stamp has been utilized.

RECOMMENDATION: That this issue be considered resolved and closed.

6. FINDING: ACDI does not keep a Cash Book to record receipts although they agree deposits to bank pay-in slips. Bank reconciliations are therefore not performed. It is recommended that ACDI maintain a Cash Book in which all transactions are recorded as well as retain the check book. ACDI should also maintain the Holding Accounts on their computerized package and reconcile the balances against the manual reconciliations.

RESPONSE: Concur. The Financial Programs Office, located at the Uganda Cooperative Alliance Headquarters, is now maintaining a cash book on the holding account. They are also physically retaining the check book. A monthly reconciliation is also now being performed by the financial programs office in conjunction with the monetization office.

RECOMMENDATION: That this issue be considered resolved and closed.

7. FINDING: The Operations Account and Petty Cash manual balances are different from the computerized values. No reconciliations are performed between the two balances. It is recommended that ACDI continue to maintain a manual cash book and petty cash book and reconcile the month-end manual balances and computerized balances for the Operations Account and Petty Cash figures.

RESPONSE: Concur. From September 1, 1991 the manual and computerized balance on the operational account and petty cash are fully reconciled and in balance. As a matter of standard month-end close procedure this function will continue to be performed.

RECOMMENDATION: That this issue be considered resolved and closed.

8. FINDING: The monthly activity reports for certain months were found to be missing. It appears that once printed the computer files are not maintained and are deleted from the hard disc. It is recommended that for the monthly activity report a hard copy of documentation should be retained and back-up diskettes should be retained.

RESPONSE: Concur. The concerns highlighted in this area were basically a result of machine failure, or faults in the program itself. Efforts are underway to fully rebuild those records that are incomplete. Back-up diskettes are now being maintained on official records.

RECOMMENDATION: That this issue be considered resolved and closed.

9. FINDING: Expenditures were reviewed against budgets and certain large differences including some considerable overruns were found. It is recommended that ACDI carefully consider their budget during the planning stage and limit spending to the values approved by the CAAS Core Committee (or seek committee approval to exceed the budget).

RESPONSE: Concur. Some of the differences encountered are a direct result of rapid inflation. Now that the project has a two year history of operation a better basis exists upon which to plan. Each line item is to be carefully projected taking into account past experience and inflation effects. In the future, as possible budget overruns surface, a revised budget with explanations, will be presented to seek CAAS Core Committee approval.

RECOMMENDATION: That this issue be considered resolved and closed.

10. FINDING: Under the agreement 28% of expenditure is to be allocated to the Purchase and Rehabilitation of Fixed Assets. The CAAS Core Committee approved a reduction from 28% to 18% but cannot reduce it further without USAID approval. Currently expenditures for this category is around 10% and is not likely to rise markedly. It is recommended that ACDI request the CAAS Core Committee to submit a proposal to USAID/Uganda for a reduction in the percentage expenditure on Purchase and Rehabilitation of Fixed Assets to a level that can be realistically achieved. The surplus funds could then be readily made available.

RESPONSE: Concur. ACDI will ask that the CAAS Core Committee request USAID/Uganda to reduce the 18% for Purchase and Rehabilitation of Fixed Assets as soon as total project income is

known and current loans in that loan category line item are through the pipeline. It is anticipated that this request will be made in the third quarter of 1992. Those funds can then be reallocated to other loan categories.

RECOMMENDATION: That this issue be considered resolved and closed.

11. FINDING: Under the agreement ACDI staff are advisors to the project on loan disbursements. Loan data has been received slowly from the Cooperative Bank, mainly due to problems in getting information from the branches. Overall, information has been received on an erratic basis. It was also noticed that the loan portfolio produced by the Cooperative Bank HQ did not agree to that produced by ACDI. It is recommended that ACDI should not only approve loans but also follow-up on them to ensure that performance is satisfactory. ACDI/UCA should help the Cooperative Bank collect the necessary data. Advice on the presentation of loan information is also required, and should be standardized.

RESPONSE: Concur. A seminar to focus on standardizing reporting procedures from branches was held in February. The Sanders/Bethe III Consultancy Report is also being studied and, if implemented, their recommendations for logistical support at branch level could solve some of the problems. At the time of the audit the bank loan portfolio analysis and ACDI's analysis did not agree because the bank was not using the correct source documents for data input. ACDI now provides a copy of the cover page of the Project Submission Proposal to the Cooperative Bank's main branch so that they have the correct loan codes. The two reports were reconciled on December 31, 1991 and January 31, 1992. They will continue to be reconciled monthly and on a timely basis.

RECOMMENDATION: That this issue be considered resolved and closed since reconciliation action has been taken.

12. FINDING: ACDI is responsible for the importation of vegoil from the United States. Of the 10,048.971 MT imported, 42.753 MT (0.425 of 1%) could not be accounted for. It is recommended that ACDI substantiate the shortfall of vegoil or refund the dollar equivalent to USAID ($48,233).

RESPONSE: A thorough review of the tonnage handled during the life of the project was conducted. The findings can be summarized as follows:

Underclaiming of transport losses	=	24.46 MT
Losses in the w/house reconstitution process	=	8.71 MT
Losses due to theft	=	12.72 MT
Total adjustments to 42.753 MT unaccounted	=	45.89 MT

These figures we feel substantiate the difference in the vegoil imported. The slight "overage" is a result due to conversion rates used and reconstitution into metric measure in jerricans. Per attachment 4 a claim for transport losses has already been lodged with the transporters.

RECOMMENDATION: That this issue be considered open until the claim has been settled.

Attachment II

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