

Regional Inspector General for Audit
Singapore

**AUDIT OF
DEVELOPMENT ALTERNATIVES, INC.'S
CONTRACT UNDER THE
AGRICULTURAL SECTOR SUPPORT PROJECT
AFGHANISTAN**

Audit Report No. 5-306-93-01-N
December 30, 1992



FINANCIAL INFORMATION CONTAINED IN THIS REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF 15 USC 1905 SHOULD BE CONSIDERED BEFORE ANY INFORMATION IS RELEASED TO THE PUBLIC.

BEST AVAILABLE



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

December 30, 1992

TO: Jonathan Sperling,
Acting A.I.D. Representative for Afghanistan Affairs

FROM: *James B. Durnil*
James B. Durnil, RIG/A/Singapore

SUBJECT: Audit of Development Alternatives, Inc.'s Contract Under the Agricultural Sector Support Project - Afghanistan
Audit Report No. 5-306-93-01-N

The accounting firm of A.F. Ferguson & Co., the Price Waterhouse affiliate in Pakistan, performed a financial audit of the Office of the A.I.D. Representative for Afghanistan Affairs' contract with Development Alternatives, Inc. (DAI) under Contract No. 306-0204-C-00-9829-00. Five copies of the audit report are enclosed for your action.

In fiscal year 1985, A.I.D. began direct assistance to Afghanistan by funding activities in health, education, agriculture, and food aid. The following year, A.I.D. established the Office of the A.I.D. Representative for Afghanistan Affairs in Islamabad, Pakistan to initiate the Cross Border Humanitarian Assistance Program. In 1989, this office entered into a contract with DAI to carry out development activities under the Agricultural Sector Support Project in Pakistan and Afghanistan. The period covered by the audit was August 15, 1989 through July 31, 1991, during which DAI reported that \$5,158,869 had been expended under the contract.

The audit objectives were to: (1) determine whether DAI's Fund Accountability Statement presents fairly the receipts and expenditures under the contract and whether the expenditures were allocable, allowable, and reasonable; (2) report on DAI's system of internal controls; and (3) report on DAI's compliance with applicable laws, regulations, and contract terms.

The auditors qualified their report on DAI's Fund Accountability Statement because they were unable to perform certain tests and procedures on expenditures said to have been incurred in Afghanistan. Accounting and record keeping provisions of DAI's contract does not apply to costs incurred within Afghanistan. No material internal control weaknesses were noted, and except as described above, with respect to items tested, DAI

complied, in all material respects, with applicable laws, regulations, and contract terms. However, the auditors questioned \$75,108 in expenditures that could not be adequately supported.

The management of DAI agreed with the auditors' findings and recommendations. Management's comments are summarized under each finding in the report and are included in full as Appendix II to this report.

The A.F. Ferguson & Co. report contains seven findings and recommendations on which the Office of the A.I.D. Representative for Afghanistan Affairs should take corrective action. We are making two recommendations to be included in the Inspector General's recommendation follow-up system:

Recommendation No. 1: We recommend that the Office of the A.I.D. Representative for Afghanistan Affairs resolve the \$75,108 in unsupported questioned costs, and recover from Development Alternatives, Inc. any costs determined to be unallowable.

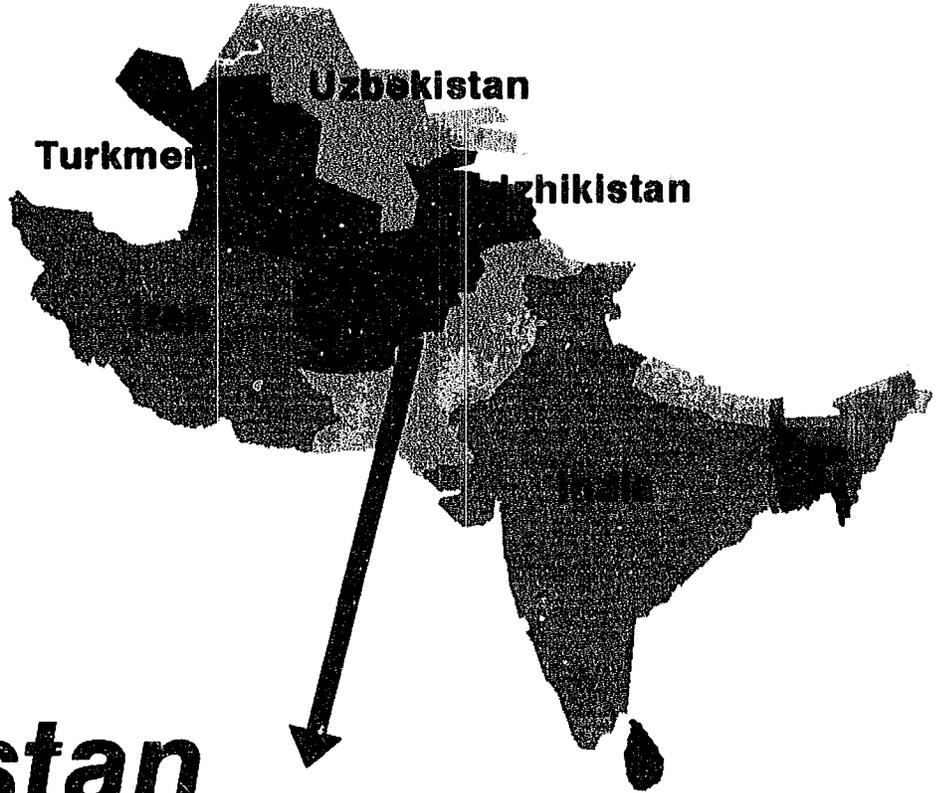
Recommendation No. 2: We recommend that the Office of the A.I.D. Representative for Afghanistan Affairs verify that Development Alternatives, Inc. establishes and implements adequate procedures to: (a) maintain documentation supporting all expenditures where required; (b) support travel claims with used tickets; and (c) select subcontractors on a competitive basis.

We appreciate the courtesies and cooperation the Office of the A.I.D. Representative for Afghanistan Affairs and DAI extended to the auditors and our staff during the course of this audit.

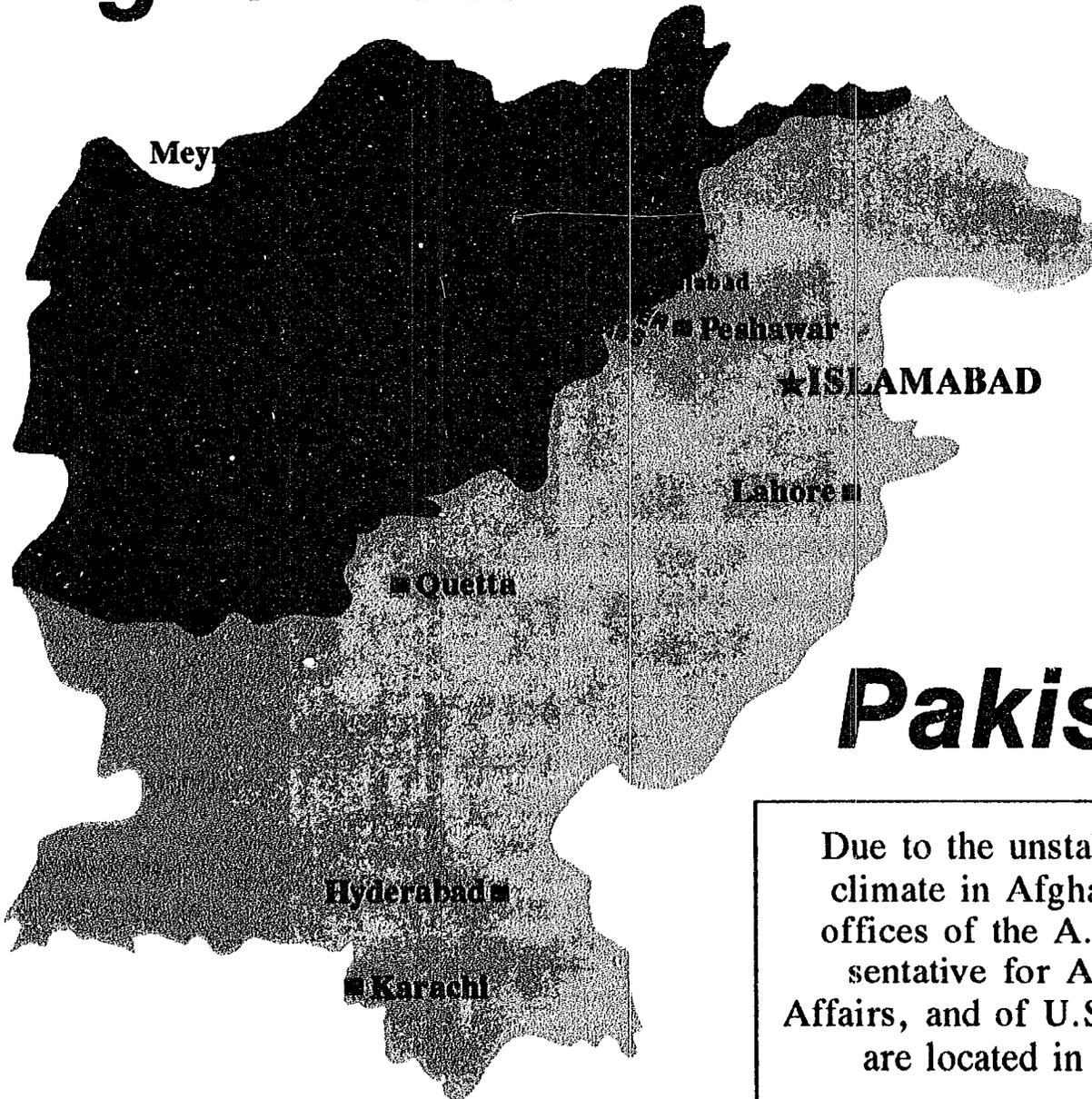
Please advise me within 30 days of any actions planned or taken to close the above recommendations.

Attachments:a/s

*Central &
South Asia*



Afghanistan



Pakistan

Due to the unstable political climate in Afghanistan, the offices of the A.I.D. Representative for Afghanistan Affairs, and of U.S. contractors, are located in Pakistan.

AUDIT OF
DEVELOPMENT ALTERNATIVES INC.
PERTAINING TO ITS CONTRACT NO.306-0204-9829

WITH

**THE UNITED STATES AGENCY FOR INTERNATIONAL
DEVELOPMENT - OFFICE OF THE REPRESENTATIVE
FOR AFGHANISTAN AFFAIRS**

(AGRICULTURAL SUPPORT SERVICES PROJECT)

**FOR THE PERIOD
FROM AUGUST 15, 1989 TO JULY 31, 1991**

Performed and Prepared by

**A.F. Ferguson & Co.
Chartered Accountants
Karachi - Pakistan**

September 30, 1992

**FINANCIAL AUDIT OF
DEVELOPMENT ALTERNATIVES INC.
PERTAINING TO ITS CONTRACT NO.306-0204-9829 WITH USAID**

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The Regional Inspector General
for Audit/Singapore
United States Agency for International
Development (USAID)
111, North Bridge Road
No.17-03, Peninsula Plaza
Singapore 0617

August 18, 1992

Dear Sir

FINANCIAL AUDIT OF DAI

This report presents the results of our financial audit of the Fund Accountability Statement of Development Alternatives Inc. ("DAI") under Contract No.306-0204-9829 for the period from August 15, 1989 through July 31, 1991. Our audit pertains to DAI's operations in Pakistan and Afghanistan only and does not include DAI's receipt and expenditure outside Pakistan and Afghanistan. Similarly, our audit does not cover DAI's management policies, and systems and procedures relating to the operations outside Pakistan and Afghanistan.

BACKGROUND

In financial year 1965, the United States Agency For International Development began a program of direct assistance to Afghanistan by providing grants to European and U.S. private voluntary organizations (PVOs) to implement activities in health, education, agriculture and food aid.

The following year, AID established a separate Office of the A.I.D. Representative in Islamabad (O/AID/REP), Pakistan to initiate a long-term humanitarian assistance program, known as the Cross Border Humanitarian Assistance Program (CBHA). Its goal was to relieve the Afghan population who chose to remain in Afghanistan and to stem the flow of refugees into Pakistan.

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Through fiscal year 1991, this program provided services and commodities to Afghanistan. This includes cross border projects in health services; education support; agricultural services, inputs and infrastructure; and food and other survival-essential commodities, including PL-480 wheat and Department of Defence (DOD) non-lethal excess property (e.g. blankets, sleeping bags). These funds and commodities were in addition to what had been provided for Afghan refugees by the Department of State. The prohibition on U.S. citizen travel in Afghanistan, due to security conditions, presented special constraints in monitoring this assistance and prevented U.S. citizens from working directly with Afghans in-country. However, the program included the participation of Afghans in each phase of activity.

Starting in 1989, Office of the A.I.D. Representative in Islamabad (O/AID/REP), Pakistan entered into the contract with Development Alternatives, Inc. to carry out several activities associated with its assistance to the people of Afghanistan under the Agriculture Sector Support Project (ASSP).

PROJECT GOAL AND PURPOSE

The goal of the ASSP (Project No.306-0204) was to help facilitate the resettlement of war affected Afghans into Afghanistan over the near term. The purposes of the ASSP were threefold: (1) to help restore agricultural productivity through small scale agricultural infrastructure rehabilitation (primarily small scale irrigation systems and farm to market roads), (2) to help assure the provision of essential production inputs and other crucial commodities, and (3) to broaden the economic base in Afghanistan by building trade links and commercial ties with Pakistan and other open market countries.

AUDIT OBJECTIVE AND SCOPE

We conducted a financial audit of DAI's Fund Accountability Statement under contract number 306-0204-9829 for the period from August 15, 1989 to July 31, 1991.

The Fund Accountability Statement of project titled 'Agricultural Support Service Project' of DAI presents only the transactions pertaining to its contract with USAID and is not intended to represent the receipts and expenditures of DAI as a whole.

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The results of our work, which pertains only to DAI's Pakistan and Afghanistan operations, are reflected in the following accompanying Independent Auditors' Reports:

1. Fund Accountability Statement
2. System of Internal Controls
3. Compliance with the terms of the contract, applicable laws and regulations

The objectives of our work were to:

- (a) Determine whether for DAI's Pakistan and Afghanistan operations the Fund Accountability Statement for DAI Project presents fairly the receipts and expenditures for the period from May 15, 1989 to July 31, 1991 in accordance with the terms of the contract with USAID and to identify costs, which were not fully supported with adequate records or which were not allocable, reasonable or allowable under the terms of the contract.
- (b) Report on DAI's internal control structure.
- (c) Report on DAI's compliance with the applicable laws, regulations and terms of the contract.

The audit was conducted in accordance with generally accepted US Government Auditing Standards and accordingly, included such tests to determine whether funds were being properly accounted for and used as directed by the contract and other applicable program documents and the laws of Pakistan.

For this audit, government auditing standards related to continuing education were not met. Because our continuing education program has not been fully implemented, we cannot ensure that staff assigned received the required ongoing professional education as prescribed. However, the assigned staff were given adequate supervision and directions to adequately perform audit work.

For this audit, government auditing standards related to an external quality control review program were not met. While our firm does not currently participate in an external review program, we have an excellent internal quality control system in place to ensure audit quality.

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The scope of our work primarily included the following general procedures:

- (a) Holding meetings with O/AID/REP, DAI and RIG/A/S officials.
- (b) Reviewing Agreements, Office of Management and Budget (OMB) circulars, AID Hand book 14 Procurement Regulations, contract files including all amendments and modifications, annual and quarterly reports submitted to USAID and to DAI's head office and Federal Acquisition Regulations.
- (c) Reviewing DAI Pakistan's internal control structure, accounting records, and control procedures.
- (d) Assessing DAI Pakistan's compliance with terms of the Agreement, applicable laws and regulations.
- (e) In performing some of the above procedures, compliance and substantive testing procedures were devised and performed.
- (f) Designing appropriate audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the results of our audit. We were also aware of the possibility of illegal acts that could have an indirect and material effect on the results of our audit.

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Internal Control Structure

Our study and evaluation of the internal control structure of DAI's operation in Pakistan and Afghanistan, made as part of the audit of the Pakistan and Afghanistan operations or transactions, did not disclose any material weakness.

Compliance with Terms of Contract, applicable laws and regulations.

Our tests for compliance with terms of agreement, applicable laws and regulations of DAI's operations in Pakistan and Afghanistan and selected transactions and records disclosed instances of non-compliance with those terms, laws and regulations. All such instances have been listed as findings number 1 to 7 at the end of this report. They led to questioned costs amounted to \$ 75,108 (See Appendix 1). Other than that:-

- our tests indicate that, for the items tested, DAI complied in all material respects with those provisions of the agreement, applicable laws, regulations and contract terms.
- for items not tested, nothing came to our attention that caused us to believe that DAI had not complied, in all material respects, with those provisions.

Management Comments

Management has agreed with our findings and recommendations. Full response from DAI has been reproduced as Appendix II.

Acknowledgement

We would like to take this opportunity to express our gratitude for the assistance extended to us by RIG/A/S office, USAID Islamabad and DAI during the course of the audit.

Yours truly

A. Ferguson & Co

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The Regional Inspector General
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111, North Bridge Road
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Singapore 0617

Dear Sir

DEVELOPMENT ALTERNATIVE INC.
PERTAINING TO ITS CONTRACT NO:306-0204-9829 WITH USAID
(AGRICULTURAL SUPPORT SERVICES PROJECT)

INDEPENDENT AUDITORS' REPORT ON THE FUND ACCOUNTABILITY STATEMENT

We have audited the Fund Accountability Statement of Development Alternative, Inc. (DAI) pertaining to expenditure incurred by DAI in Pakistan and Afghanistan relating to its contract number 306-0204-9829 with the United States Agency for International Development ("USAID") as they relate to the period from August 15, 1989 to July 31, 1991. This Statement and the notes thereon are the responsibility of DAI's management. As stated in Note 2, the Fund Accountability Statement presents only the transactions of DAI as they pertain to the said contract and agreement to provide services directly or indirectly to USAID and is not intended to present fairly the receipts and expenditure of DAI as a whole in conformity with generally accepted accounting principles. Our responsibility is to express an opinion on the Statement based on our audit.

We conducted our audit in accordance with generally accepted US Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatements. 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 Fund Accountability Statement presentation. We believe our audit provides a reasonable basis for our opinion.

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As stated in note 1b, the fund accountability statement is prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. Also, as stated in note 2, this statement is prepared in conformity with DAI's contractual requirements which includes the "Special Audit Requirements" as stated on page 5 of this report. These requirements, however, prevented us from performing certain tests and procedures on expenditures said to have been incurred inside Afghanistan and such limitations represented an impairment on our audit scope.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding expenditures incurred within Afghanistan, the Fund Accountability Statement referred to above present fairly, in all material respects, the receipts and expenditure of DAI pertaining to the period from August 15, 1989 to July 31, 1991 on the basis of accounting described in notes 1b and 2.

This report is intended solely for the use of DAI and the Agency for International Development and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the USAID Regional Inspector General for Audit, Singapore, is a matter of public record.

May 20, 1992



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Singapore 0617

Dear Sir

**DEVELOPMENT ALTERNATIVE INC.
PERTAINING TO ITS CONTRACT NO:306-0204-9829 WITH USAID
(AGRICULTURAL SUPPORT SERVICES PROJECT)**

INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL

We have audited the Fund Accountability Statement of Development Alternative, Inc. (DAI) pertaining to expenditure incurred by DAI in Pakistan and Afghanistan relating to its contract number 306-0204-9829 with the United States Agency for International Development ("USAID") as they relate to the period from August 15, 1989 to July 31, 1991. This Statement and the notes thereon are set out on the following pages and we have issued our report thereon dated May 20, 1992.

We conducted our audit in accordance with generally accepted US Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatements.

In planning and performing our audit of DAI, 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 of DAI.

The management of DAI 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 the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and

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recorded properly to permit the preparation of fund accountability statement in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

Accounting Controls:

- Cash receipts
- Cash disbursements
- Payroll

Administrative Controls:

- Cost allocation and allowability
- Monitoring
- Reporting

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

As a result of these procedures, and in accordance with Government Auditing Standards, we have limited our reliance on the internal control structure as, given the small size of the entity, an adequate structure for the purposes of audit reliance was considered not to be in existence. As a consequence, we adopted a substantive testing approach in our audit of the Fund Accountability Statements.

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 condition in which the design or operation of the specific internal control structure elements does not reduce, to a relatively low level, the risk that errors or irregularities, in amounts that would be material in relation to the 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 tasks. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

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This report is intended solely for the use of DAI and the Agency for International Development and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the USAID Regional Inspector General for Audit, Singapore, is a matter of public record.

May 20, 1992

A. Ferguson & Co

A. F. FERGUSON & CO.

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Dear Sir

DEVELOPMENT ALTERNATIVE INC.
PERTAINING TO ITS CONTRACT NO:306-0204-9829 WITH USAID
(AGRICULTURAL SUPPORT SERVICES PROJECT)

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE APPLICABLE LAWS,
REGULATIONS AND TERMS OF CONTRACT

We have audited the Fund Accountability Statement of Development Alternative, Inc. (DAI) pertaining to expenditure incurred by DAI in Pakistan and Afghanistan relating to its contract number 306-0204-9829 with the United States Agency for International Development ("USAID") as they relate to the period from August 15, 1989 to July 31, 1991. This Statement and the notes thereon are set out on the following pages and we have issued our report thereon dated May 20, 1992.

We conducted our audit in accordance with generally accepted US Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatements.

Compliance with applicable laws, regulations and terms of the contract is the responsibility of DAI's management. As part of our audit, we performed tests of DAI's compliance with certain provisions of laws, regulations and terms of contract. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

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Our testing of transactions and records selected disclosed instances of non-compliance with those laws and regulations. Also, as stated in note 2 to the fund accountability statement, the accounts were prepared in conformity with DAI's contractual requirements. Because of these contractual requirements, we were unable to perform certain tests and procedures on expenditures said to have been incurred inside Afghanistan. All instances of non-compliance that we found are identified as finding numbers 1 to 7 at the end of this report.

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

This report is intended solely for the use of DAI and the Agency for International Development and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the USAID Regional Inspector General for Audit, Singapore, is a matter of public record.

May 20, 1992

A. Ferguson & Co

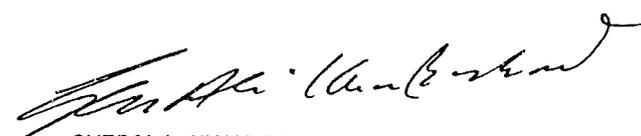
DEVELOPMENT ALTERNATIVE, INC.
 PERTAINING TO ITS CONTRACT NO:306-0204-9829 WITH USAID
 (AGRICULTURAL SUPPORT SERVICES PROJECT)

FUND ACCOUNTABILITY STATEMENT
 FOR THE PERIOD AUGUST 15, 1989 TO JULY 31, 1991

	NOTE	RUPEES	US \$
RECEIPTS	3	137,366,924	5,577,219
EXPENDITURE			
Programme cost			
Private Sector Agribusiness (PSA)	4	65,135,374	2,644,554
Programme Planning Analysis (PPA)	5	11,311,861	459,272
Agricultural Development and Training (ADT)	6	44,883,037	1,822,291
Monitoring	7	3,123,278	126,807
		124,453,550	5,052,924
Logistic support cost		2,609,450	105,945
		127,063,000	5,158,869
Excess/(Shortage) of receipts over expenditure		10,303,924	418,350

TECHNICAL COSTS INCURRED LOCALLY

Transportation/per diem	246,505
Commodity/equipment	18,857
Other direct cost	105,353
Human resources	182,973
	553,688

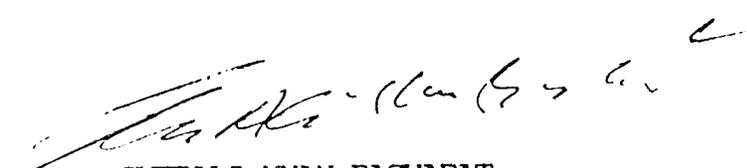

 SHERALI KHAN BASHARAT
 (Chief of Finance and Administration)


 RICHARD L. SMITH
 (Chief of Party)

DEVELOPMENT ALTERNATIVE, INC.
 PERTAINING TO ITS CONTRACT NO:306-0204-9829 WITH USAID
 (AGRICULTURAL SUPPORT SERVICES PROJECT)

NOTES TO THE FUND ACCOUNTABILITY STATEMENT
 FOR THE PERIOD AUGUST 15, 1989 TO JULY 31, 1991

	Rupees	US \$
6. Agriculture Development & Trainig (ADT)		
Operational expenses	19,415,501	788,287
Commodity/supplies	11,960,610	485,611
Salaries	8,432,273	342,358
Transportation/per diem	5,074,653	206,035
	<u>44,883,037</u>	<u>1,822,291</u>
	<u><u>44,883,037</u></u>	<u><u>1,822,291</u></u>
7. Monitoring		
Operational expenses	217,946	8,849
Commodity/supplies	146,850	5,962
Salaries	1,664,407	67,576
Transportation/per diem	1,094,075	44,420
	<u>3,123,278</u>	<u>126,807</u>
	<u><u>3,123,278</u></u>	<u><u>126,807</u></u>


 SHERALI KHAN BASHARAT
 (Chief of Finance and Admin.)


 RICHARD L. SMITH
 (Chief of Party)

FINANCIAL AUDIT OF DAI RELATING TO
ITS CONTRACT NO.306-0204-9829 WITH USAID
FOR THE PERIOD FROM AUGUST 15, 1989 TO JULY 31, 1991

AUDIT FINDINGS AND RECOMMENDATIONS
COMPLIANCE ISSUES

1. ABSENCE OF A FORMAL PERMISSION TO CARRY OUT OPERATIONS IN
PAKISTAN AND COMPLIANCE WITH OTHER FORMALITIES

Condition

DAI did not have a formal permission from Government of Pakistan to carry out its operations in Pakistan and did not comply with formalities to file required documents.

Criteria

In terms of a Press Note dated October 3, 1963 issued by Ministry of Industries, it is necessary for all foreign companies to have formal permission from Government of Pakistan for carrying out their operations in Pakistan. Section 451 of the Companies Ordinance, 1984 lays down further requirements to be fulfilled by Companies established outside Pakistan and carrying out operations in Pakistan.

Effect

DAI could be fined or sanctioned by the Government of Pakistan.

Cause

DAI is under the impression (though not certain) that they may be exempt from the requirements.

Recommendation

DAI should seek clarification on this subject and act accordingly.

Management Comments

Management has agreed with our recommendations to seek further clarification.

2.

NOT WITHHOLDING TAXES FROM EMPLOYEES SALARIES

Condition

DAI did not deduct tax from the salaries paid to its employees.

Criteria

Article IX of Section H of the contract between DAI and USAID states that host country taxes will not be financed by USAID and it is the responsibility of the contractor to arrange for all tax exemptions. Section 50 of the Income Tax Ordinance, 1979 requires employers to deduct tax from salaries paid to employees and remit them to the tax authorities.

Effect

DAI will be exposed to its employees' tax liabilities if they default on their income taxes.

Cause

DAI is under the impression (though not certain) that they may be exempt from the requirement of withholding taxes.

Recommendation

We recommended that DAI should seek clarification on this issue and act accordingly.

Management Comments

Management has agreed with our recommendations to seek further clarification.

3. NOT WITHHOLDING TAXES FROM PAYMENTS TO SUPPLIERS

Condition

DAI did not deduct tax from the payments made to suppliers.

Withholding tax needs to be deducted from the payments to suppliers and remitted to tax authorities.

Criteria

Article IX of Section H of the contract between DAI and USAID states that host country taxes will not be financed by USAID and it is the responsibility of the contractor to arrange for all tax exemptions. Section 50 of the Income Tax Ordinance, 1979 requires the recipients of goods and services to deduct tax from payments to suppliers and remit them to tax authorities.

Effect

In case of examination from the tax authorities, DAI could be fined for non-compliance with the above tax requirements.

Cause

DAI is under the impression (though not certain) that they may be exempt from the applicability of this tax provision.

Recommendation

We recommend that DAI should seek clarification on this issue and act accordingly.

Management Comments

Management has agreed with our recommendations to seek further clarification.

4. ABSENCE OF DETAILED REPORTING

Condition

DAI did not report in detail on costs incurred inside Afghanistan which were covered by the special audit requirements. Following two instances of such costs were noted by us for which third party invoices/acknowledgements were not available.

DATE	VOUCHER NUMBER	LINE ITEM	NATURE OF EXPENDITURE	AMOUNT
18-09-90	700	Transportation/ per diem	Transportation and car rental expenses inside Afghanistan	Rs.15,433 (\$ 627)
25-09-90	773	Transportation/ per diem	Transportation and car rental expenses inside Afghanistan	Rs.32,641 (\$ 1,325)
			TOTAL	Rs.48,074 (\$1,952)

Criteria

Article XIII of Section H (inserted through modification number 3) of the contract between DAI and USAID requires that the cost covered under this Article should be reported in detail.

Effect

USAID did not get the opportunity to ensure that such costs are reasonable.

Cause

DAI officials were not fully aware of the requirements of Article XIII, inserted subsequently.

Recommendation

We recommend that all such costs should be submitted to USAID to give them an opportunity to ensure that they are reasonable.

Management Comments

Management has agreed with our recommendation and is willing to submit such costs to USAID in detail to ensure their reasonableness.

5. LACK OF THIRD PARTY INVOICE

Condition

For a payment of Rs.21,200 (\$ 861) for purchase of 4 handzoom cameras, the invoice from the supplier was not available (Voucher No.552 dated 28th August, 1990).

Criteria

Standard provision 52.215.2 requires the contractor to maintain adequate documents to reflect costs claimed to have been incurred. Suppliers' invoices are an essential part to such documentation.

Effect

DAI is unable to demonstrate that Rs.21,200 (\$861) was the actual cost of the cameras.

Cause

We understand that the invoice was taken out at the time of next purchase of cameras to verify the prices and was subsequently misplaced.

Recommendation

We recommend that DAI should resolve this questioned cost with USAID and repay any amount determined to be unallowable.

Management Comments

Management has agreed with our recommendation.

6. LACK OF RETURNED TICKETS

Condition

Jackets of used tickets were not available in the following cases:

Sr. No.	Date	Vr. No.	Line Item	Nature of Expenditure	Amount Rs.	Amount US \$
1.	18.7.90	136	Travel	Air tickets of Mr. Qasim Yousafi from Peshawar to Omaha (U.S.A.)	43,819	1,779
2.	25.3.90	35	Travel	Air tickets of Mr. Agha Jan, Mr. A. Khalil and Mr. Xavier from Peshawar-Islamabad-Quetta-Islamabad-Peshawar. 3 X 2,670 (Y class)	8,010	325
3.	May 91	789	Travel	Air tickets of Mr. Kohistani from Islamabad to Washington to Islamabad	59,900	2,432
4.	08.07.90	100	Technical Assistance	i) Travel ticket of Mr. Niazi from Isbd-Khi-Lon-Nyc-Wasn-Lon-Khi-Pshr. ii) Air tickets of family of Dr. Wakil from ISB-IST-NYC-WAS-AUT and back	47,600	1,933
5.	22.07.90	106	-do-	Travel ticket of D.E. Fareed from Isbd-Khi-Bkk-Tyo-Seattle-Tyo-Hkg-Bkk-Khi-Pshr	45,930	1,865
6.	20.08.90	125	-do-	Travel ticket of Mrs. Haws from Sac-Chc-Bru-Ldn-Isbd.	47,636	1,934
7.	09.12.90	245	-do-	Travel ticket of Mr. & Mrs. Haws	54,890	2,229
8.	19.12.90	256	-do-	Travel ticket of R.L. Smith from Isbd-Ldn-Bos-Was-Bos-Ldn-Isbd.	54,385	2,208

Sr. No.	Date	Vr. No.	Line Item	Nature of Expenditure	Amount Rs.	Amount US \$
9.	21.04.91	338	Technical Assistance	Travel ticket of David Gurner and R. Haskell from Was-Bstn-Ldn-Isbd.	184,977	7,510
10.	13.05.91	363	-do-	Travel ticket of D.E. Fareed from Sea-Tyo-Bkk - Khi-Pshr-Khi-Bkk-Sin-Tyo - Sea	74,832	3,038
11.	11.06.91	394	-do-	Travel tickets of Mr.Soden and Haskell with their families from Sba-Lax-Sfd-Bkk-Khi-Pshr and Isbd-Ldn-Isbd, respectively	198,665	8,066
12.	25.06.91	400	-do-	Travel tickets of R.L. Smith and his family from Was-Isbd-Wash.	433,532	17,602
13.	08.07.91	423	-do-	Travel tickets of Dr.Wakil Mr. Bob from Isbd-Ldn-Bos-Was and Isbd-Fra-Chi-Was & back	70,325	2,855
14.	16.07.91	432	-do-	Travel ticket of Mr. Rice Was-Ldn-Bos-Isbd-Ldn-Bos - Was.	99,882	4,055
15.	17.07.91	435	-do-	Travel ticket of Mr. Miles Toder from Was- Bos-Ldn-Isbd-Ldn-Bos-Was.	98,122	3,984
TOTAL					1,708,540	69,368
					=====	=====

Criteria

Standard provision 52.215.2 requires the contractor to maintain adequate documents to reflect costs claimed to have been incurred. Jackets of used tickets are an essential part to such documentation.

Effect

DAI was unable to demonstrate that these travels were actually made and these tickets were in fact used for those travels.

Cause

All the employees of DAI are either not aware of the requirement to return the jacket of used ticket or do not follow the practice strictly. The internal procedure of DAI requires the person, who approves the per diem allowances subsequently, to ensure that the jacket is attached with the claim. However, as it is not mentioned on the voucher specifically, he also sometimes slips up on this account. Item No.2 above is an example of such a slip up.

Secondly, in some cases subsequent claims for per diem are not filed in Pakistan. They are either because the ticket is for the last trip to home country at the end of the contract (in which case question of subsequent claim does not arise) or the ticket was issued to technical program staff from Pakistan office instead of Washington office for economic reasons and the subsequent claims for per diem are submitted to Washington office. Thus there is no internal procedure to ensure return of used jacket.

Recommendation

We recommend that the policy of returning used tickets should be documented and circulated among all employees. Internal procedure should be improved by providing a box for verifying that used jacket is enclosed and coordination with Washington office should be improved to ensure that used jackets, if submitted there, are returned to the office in Pakistan for verification purposes.

DAI should resolve these questioned costs with USAID and repay any amounts determined to be unallowable.

Management Comments

Management has agreed with our recommendation to improve procedure.

7. LACK OF QUOTATIONS

Condition

Quotations were not available in respect of a payment of Rs.120,160 (\$ 4,879) made to M/s.Phoenix Traders (Party decorators) on December 2, 1990 for arrangements in trade fair programme (Voucher No.453).

Criteria

Standard provision 52.244.5 requires contractors to select subcontractors on a competitive basis. Quotations from different parties form an integral part of the process of selecting a party on a competitive basis.

Effect

DAI can not demonstrate the reasonableness of this amount.

Cause

Actual cause not known. Apparently it was an oversight.

Recommendation

DAI should try to establish reasonableness of this amount either through obtaining quotations subsequently or producing other evidence like similar purchases. If USAID is satisfied with the reasonableness this issue will be resolved - otherwise USAID may disallow the amount considered unreasonable.

Management Comments

Management has agreed with our recommendation to establish its reasonableness.

DEVELOPMENT ALTERNATIVES INC.
SCHEDULE OF QUESTIONED COSTS

Unsupported:		Rs.	\$
		-----	-----
Finding 5	Supplier's invoice missing	21,200	861
Finding 6	Jackets of used tickets not available	1,708,540	69,368
		-----	-----
		1,729,740	70,229
Other Unallowable Costs:			
Finding 7	Quotations not available	120,160	4,879
		-----	-----
Total		1,849,900	75,108
		=====	=====

De

AFGHANISTAN
AGRICULTURAL
SECTOR
SUPPORT
PROJECT

APPENDIX 2
Page 1 of 3

DAI
Development Alternatives, Inc.

September 29, 1992

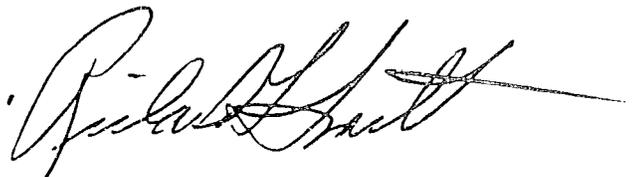
M/S A.F. Ferguson & Co.
Chartered Accountants
State Life Building 1-C
OFF I.I. Chundrigar Road
P.O. Box 4716
Karachi 74000

Dear Sir:

MANAGEMENT COMMENTS ON AUDIT REPORT

Please find attached our comments on your report for ASSP. As far as NACP is concerned, the project is closed and any action on the finding is impossible. All the findings for NACP should be considered resolved and closed.

Sincerely,



Richard L. Smith
Chief of Party

cc. Bob Gross
Controller, DAI

ATTACH:

MANAGEMENT COMMENTS ON DAI/ASSP
AUDIT REPORT
FOR THE PERIOD OF AUGUST 15, 1989 THROUGH JULY 31, 1991.

Finding No.1 through 3:

DAI believes that under the terms of contract we have complied with all laws. However, we will seek further clarification.

Finding No.4:

Voucher No. 700: These expenses were incurred by a team of four employees on seven different occasions. These expenses were \$6.52, \$9, \$18 and \$7.24 per person per occasion. The voucher was verified by one of the senior expatriates having current and detail knowledge of inside Afghanistan. DAI does not question the legitimacy and reasonableness of these expenditures. DAI has exercised prudent oversight of such costs and is willing to present these vouchers to any AID/Rep. representative for further review. The finding may be considered as resolved and closed.

Voucher No. 773: These expenses were incurred by three people during forty-two days. The questioned cost includes an amount of Rs.12,600/- (\$547.82) per diem allowance (a standard allowance of Rs.100/- per day per person). The per diem rate is an established standard per day rate for everyone on TDY inside Afghanistan. This is in conformity with AID policy to have standard rates of per diem. The transportation cost in this voucher is Rs. 20,041/-. These expenses were incurred on 21 occasions, which gives us an average expense per person per occasion of Rs.318/- (\$13.83). As mentioned above the voucher was reviewed and approved by responsible staff. DAI has exercised prudent oversight of such costs and is willing to present these vouchers to any AID/Rep. representative for further review. The finding may be considered as resolved and closed.

Finding No. 5:

As mentioned by the auditors in the Cause of finding, the voucher was taken out for the next camera purchase and subsequently misplaced. All the four cameras are listed with the same amount and voucher number in our inventory system, reference No. 04-02-0090. This is the only voucher missing out of three years record. The amount involved is not material and stores are properly recorded and available. The finding, therefore, may be considered resolved and closed.

Finding No. 6:

DAI agree that the at present the jackets of the used tickets are not available. However, all these travels and class of travel can easily be verified through other means.

DAI has developed procedures to insure that all used/unused portion of the tickets are collected from the travelers.

DAI will welcome any further procedures to determine the validity of these expenses by AID/Rep.

Finding No. 7:

It is DAI policy to obtain quotations for all procurement over Rs.5000/- (which is far lower than FAR standards). We believe that quotations for this procurement were obtained, however, currently they can not be located.

DAI will establish the reasonableness of this amount as recommended.

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