

Regional Inspector General for Audit  
Nairobi, Kenya

Audit of  
International Crops Research Institute  
for the Semi-Arid Tropics - Zimbabwe  
Grant No. 613-0224-G-00-3029

Report No. 3-613-93-09-N  
January 22, 1993



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GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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January 22, 1993

memorandum

TO: Ted D. Morse, Director, USAID/Zimbabwe

FROM: *for* Everette B. Orr, RIG/A/Nairobi *Joseph Fainella*

SUBJECT: Audit of International Crops Research Institute for the Semi-Arid Tropics - Zimbabwe Grant No. 613-0254-G-00-3029, Audit Report No. 3-613-93-09-N

Attached are five copies of an agency-contracted financial audit report of International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) - Zimbabwe Grant No. 613-0254-G-00-3029. The accounting firm of Price Waterhouse Meyernel, South Africa performed the audit.

In September 1983, USAID/Zimbabwe signed a grant agreement with ICRISAT for \$14.8 million to implement the Regional Sorghum and Millet Research Project No. 690-0254 for the Southern African Development Coordination Conference. Additional funding was authorized to a total of \$29.95 million over the life of the project. The project is scheduled to end in September 1993. The objective of the project is to increase the production of sorghum and millet with good consumer acceptance, local adaptation and pest resistance. The audit covered expenditures totalling \$19,325,810 for the period January 1987 through December 1991.

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The objectives of the audit were to:

- audit the auditee's Fund Accountability Statement and express an opinion as to whether the Fund Accountability Statement presents fairly, in all material respects and in conformity with the basis of accounting described in the report, the use of funds in accordance with the grant agreement;
- consider the auditee's internal control structure in order to determine the auditing procedures for the purpose of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses; and
- test the auditee's compliance with the terms of the grant agreement, as part of obtaining reasonable assurance as to whether the Fund Accountability Statement is free of material misstatement, and report on any identified material instances of noncompliance.

The auditors issued a qualified opinion on the Fund Accountability Statement, questioning \$384,688 of ineligible costs. The report on the internal control structure did not identify any material weaknesses. Further, the report on compliance identified material non-compliance issues relating to utilization of funds for non-project related activities and failure to calculate annual overhead rates.

The draft audit report was submitted to the auditee and USAID/Zimbabwe for comments, and their comments (Appendix I and Appendix II) were incorporated in the final report by Price Waterhouse Meyernel. We agreed with Price Waterhouse Meyernel's response to the auditee and USAID/Zimbabwe comments as summarized in 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/Zimbabwe determine the allowability and recover, as appropriate, from International Crops Research Institute for the Semi-Arid Tropics questioned (ineligible) costs of \$384,688.

**Recommendation No. 2:** We recommend that USAID/Zimbabwe obtain a plan of corrective action from International Crops Research Institute for the Semi-Arid Tropics to improve its compliance regarding:

**2.1 utilization of funds for project related activities; and**

## **2.2 the need to calculate annual overhead rates.**

We consider Recommendation Nos. 1 and 2 unresolved. Recommendation No. 1 will be resolved upon receipt of a final determination of the allowability of the questioned costs. Recommendation No. 2 may be resolved upon USAID/Zimbabwe's agreement to obtain a plan of action to implement the above mentioned recommendations. Recommendation No. 1 can be closed upon issuance of a bill for collection or other provision for recovery of any amounts determined to be unallowable. Recommendation No. 2 can be closed by supplying this Office with copies of the plan of action to implement the recommendation regarding compliance. Please respond to this report within 30 days indicating actions planned or already taken to implement these recommendations.

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

Attachments: a/s.

AUDIT OF  
INTERNATIONAL CROPS RESEARCH INSTITUTE FOR THE  
SEMI-ARID TROPICS - ZIMBABWE GRANT NO. 613-0254-G-00-3029

ATTACHMENTS

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**INTERNATIONAL CROPS RESEARCH INSTITUTE  
FOR THE SEMI-ARID TROPICS**

**AGENCY-CONTRACTED AUDIT OF ICRISAT GRANT UNDER  
USAID/ZIMBABWE REGIONAL  
SORGHUM AND MILLET RESEARCH PROJECT NO.690-0224**

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**INTERNATIONAL CROPS RESEARCH INSTITUTE  
FOR THE SEMI-ARID TROPICS**

**AGENCY-CONTRACTED AUDIT OF ICRISAT GRANT UNDER  
USAID/ZIMBABWE REGIONAL  
SORGHUM AND MILLET RESEARCH PROJECT NO.690-0224**

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**APPENDIX 2. USAID/ZIMBABWE REPORT COMMENTS**

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**INTERNATIONAL CROPS RESEARCH INSTITUTE  
FOR THE SEMI-ARID TROPICS**

**AGENCY-CONTRACTED AUDIT OF ICRISAT GRANT UNDER  
USAID/ZIMBABWE REGIONAL  
SORGHUM AND MILLET RESEARCH PROJECT NO.690-0224**

**1. INTRODUCTION**

**1.1 BACKGROUND**

In September 1983 USAID/Zimbabwe provided the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) a US\$ 14.8 million grant to implement the Regional Sorghum and Millet Research Project No. 690-0224 for Southern African Development Co-ordination Conference (SADCC). The objective of the project is to increase the production of sorghum and millet with good consumer acceptance, local adaptation and pest resistance. Project activities include research, development and training effort for improvement of agricultural production in the SADCC countries. Other donor support included Germany \$1.6 million and Canada \$1.5 million.

In 1983 ICRISAT (headquarters at Hyderabad, India) established an office at the Matopos research station near Bulawayo, Zimbabwe in co-operation with the Government of Zimbabwe. In addition, the International Sorghum/Millet Collaborative Research Support Program (INTSORMIL-CRSP) located at the University of Nebraska proposed to work jointly with ICRISAT to develop a 10-year master training plan. Five subsequent agreement modifications from September 30, 1983 through August 9, 1988 between USAID/Zimbabwe and ICRISAT increased life of project funding to \$29.95 million and extended the project completion date to September 15, 1993. As of December 1991, \$25.25 million had been disbursed.

USAID/Zimbabwe has requested that the USAID Regional Inspector General for Audit, located in Nairobi, perform an Agency-Contracted Audit of costs claimed by ICRISAT. Price Waterhouse has been awarded Delivery Order 1 under its Indefinite Quantity Contract for Financial Audits, Contract No. 645-0000-I-00-1053-00 to perform this audit.



## 1.2 AUDIT OBJECTIVES AND SCOPE

The objectives of this engagement were to:

- audit the auditee's Fund Accountability Statement and express an opinion as to whether the Fund Accountability Statement presents fairly, in all material respects and in conformity with the basis of accounting described in the report the use of funds in accordance with the grant agreement;
- consider the auditee's internal control structure in order to determine the auditing procedures for the purpose of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses; and
- test the auditee's compliance with the terms of the grant agreement, as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, and report on any identified material instances of noncompliance.

The Mission also requested that the auditors assess:

- the financing of ineligible costs (e.g. office tea, parties, legal fees)
- accuracy and validity of an overhead rate of 15% being used by ICRISAT
- non-submission of sales tax receipts to USAID/Zimbabwe so that a claim can be forwarded to Government of Zimbabwe for reimbursement
- home office or Bulawayo office costs that appear extraordinarily high (e.g. possibly due to replacement of high value capital items, increases in salaries in Hyderabad or increased allocation of Hyderabad staff time and salaries to USAID grant)
- the high utilization of grant funds that will only cover expenditures planned through October 1992 instead of the project completion date of September 1993
- review of all costs for allowability, allocability and reasonableness.



The scope of the audit included the annual financial statements, accounting records, underlying source documents, memorandum records, contractual documents and correspondence, the overhead rate calculations prepared by ICRISAT and the financial audit report of the Regional Inspector General for Audit/Nairobi, performed in June 1987, for activity from project inception through March 31, 1987. The period of our examination was from January 1, 1987 through December 31, 1991. Expenditures of \$6,840,607 were tested out of a total of \$19,325,810.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of *Government Auditing Standards* since no such quality control review program is offered by professional organizations in South Africa. We believe that the effect of this departure from the financial audit requirements of *Government Auditing Standards* is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Johannesburg office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

### 1.3 METHODOLOGY

Price Waterhouse conducted the initial survey of the accounting records from December 12 to December 16 1991 at the ICRISAT offices near Bulawayo. PW subsequently prepared its audit work plan for approval by RIG/A/N, secured approval and performed the fieldwork at Bulawayo from February 3-28 1992, April 14-16 1992 and at ICRISAT headquarters in Hyderabad India from March 30 to April 10. PW completed their final tests at Bulawayo on April 27 and May 8, 1992. Report preparation was performed at our offices in Johannesburg.

The audit steps performed included:

- meeting with USAID/Zimbabwe officials to discuss Mission audit concerns, survey results, prior RIG audit reports, absence of standard mandatory grant provisions and audit schedules
- reviewing the grant documentation (grant agreement, amendments, PILS, standard USAID provisions to the extent applicable), project correspondence, budgets and program evaluations to gain an understanding of the goals and objectives of the grant, the activities being financed by USAID, the types of costs incurred under the project, and the financial procedures and requirements placed upon ICRISAT by USAID



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- reviewing applicable AICPA Statement on Auditing Standards, "Yellow Book" Standards (GAS), AID Handbooks, and Office of Management and Budget Circulars
- performing walk-throughs of the accounting systems (vendor invoice, payroll, journal voucher, travel) to confirm understanding and identify areas for audit testing
- detailed transaction testing in the selected accounts to determine the extent of acceptable, allowable, or unallowable expenses
- reconciling ICRISAT invoices to USAID records
- reviewing the indirect rate schedules, including indirect expense pools, direct cost allocation bases, identification of allowable and unallowable expenses, and consistency of methodology between projects and over time
- reviewing the internal control structure including the control environment, accounting system and control procedures, as well as performing a fraud and error control analysis
- confirmation of ICRISAT compliance with grant provisions including reporting requirements, exclusion of local taxes, methodologies for liquidation of advances, adherence to mandatory US Government standard provisions and cost principles, etc.
- other matters raised by USAID/Zimbabwe officials.

#### **1.4 SUMMARY OF AUDIT RESULTS**

The audit tests identified \$384,688 of ineligible costs of total expenditures claimed totalling \$19,325,810. The details of the ineligible costs can be found in the findings section following the report on the Fund Accountability Statement.



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Our review of internal controls identified numerous instances where controls could be improved and strengthened. The following non-material reportable conditions were observed: the ICRISAT Matopos accounting system is not capable of handling the types and volumes of transactions; the accounting system does not properly classify, record and report USAID grant transactions; invoices to USAID are not reconciled for funds received from and disallowances made by USAID and ICRISAT Hyderabad has never performed an overhead rate calculation.

The review of compliance with grant provisions and regulations identified a number of material non-compliance including: the utilization of grant funds for non-USAID related activities and failure to calculate annual actual overhead rates. Our findings are described in detail following the report on Compliance with Agreement Terms and Applicable Laws and Regulations.

Our tests of other matters raised by USAID/Zimbabwe identified that, ICRISAT's overhead rate, applied to salaries and support costs, is 32.7%; that sales tax receipts were not always reclaimed from the Government of Zimbabwe on a timely basis, resulting in some disallowances; and that grant funds are being consumed at a faster rate than planned due to ICRISAT charging for a disproportionate share of common costs which should be properly allocated to the Canadian and German aid agency grants.

## 1.5 SUMMARY OF MANAGEMENT COMMENTS

ICRISAT management commented on each finding of the first draft report. A copy of their complete comments are included as Appendix 1. A copy of their comments on the revised draft are also included in that appendix.

In summary, ICRISAT management believes that salary costs above the FS1-Cap level are permitted as per Grant Amendment No. 5; invoices submitted to USAID/Zimbabwe have been correct since the introduction of a new accounts officer (beginning of 1991) and the use of computers and Lotus 1-2-3; USAID/Zimbabwe has reviewed the issue of billing India based support staff as direct costs and is satisfied that the employee's job description relates to the project; legal and arbitration expenditures incurred were reasonable, allocable and allowable; the project accounting system in use, including Lotus 1-2-3, is capable of accounting for multiple currencies and multiple projects and satisfying USAID/Zimbabwe requirements; the 15% charged for overhead is an ICRISAT board policy decision, and that OMB circular A-122 does not apply since it is not incorporated in the grant agreement; invoices are being properly reconciled between the project General Ledger and USAID/Zimbabwe; USAID/Zimbabwe never provided ICRISAT with the required reporting format as required in the Grant Agreement; and that donor delays in processing advances occasionally left bank balances dry in one grant or another, and monies from various grants were temporarily used to offset deficiencies however, strict accounting of the borrowing and loaning is maintained and all balances will be repaid.

## Price Waterhouse Meyernel



### 2. FUND ACCOUNTABILITY STATEMENT

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#### 2.1 INDEPENDENT AUDITORS OPINION OF THE FUND ACCOUNTABILITY STATEMENT

We have audited the Fund Accountability Statement of the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT), under USAID/Zimbabwe Regional Sorghum and Millet Research Project No. 690-0224 for the period January 1, 1987 through December 31, 1991. This statement is the responsibility of ICRISAT. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and in accordance with the **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 Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in this financial statement. 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.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of **Government Auditing Standards** since no such quality control review program is offered by professional organizations in South Africa. We believe that the effect of this departure from the financial audit requirements of **Government Auditing Standards** is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Johannesburg office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

As described in the notes following the Fund Accountability Statement, the Statement was prepared on the basis of generally accepted accounting principles.

We have identified certain expenses and transactions that, in our opinion, are questioned for reimbursement under the Grant Agreement between ICRISAT and the United States Agency for International Development. With respect to incurred expenditures, the results of our audit include \$384,688 of ineligible costs.



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***INDEPENDENT AUDITORS OPINION OF THE FUND ACCOUNTABILITY STATEMENT***

In our opinion, except for the amounts stated in the preceding paragraph, the Fund Accountability Statement presents fairly in conformity with the basis of accounting described in the notes following the Fund Accountability Statement, the expenses for ICRISAT Project No. 690-0224 for the period January 1, 1987 through December 31, 1991.

Financial 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 information of the United States Agency for International Development and the management of ICRISAT but this is not intended to limit the distribution of the report if a matter of public record.

*Alice Waterhouse Raymond*  
\_\_\_\_\_

May 8, 1992



INTERNATIONAL CROPS RESEARCH INSTITUTE FOR SEMI-ARID TROPICS  
UNDER USAID/ZIMBABWE REGIONAL SORGHUM AND MILLET RESEARCH  
PROJECT NO. 690-0224

2.2 FUND ACCOUNTABILITY STATEMENT  
(January 1, 1987 - December 31, 1991)

	Cumulative Expenditures	Accepted Costs	Questioned	
			Ineligible Costs	Unsupported Costs
Professional Staff	\$ 2,576,652	\$ 2,518,177	\$ 58,475	-
Support Staff	\$ 2,085,391	\$ 2,054,136	\$ 11,255	-
Operations	\$ 5,544,213	\$ 5,255,028	\$ 289,185	-
Training	\$ 3,898,161	\$ 3,898,161	-	-
Project Evaluation	\$ 178,613	\$ 178,613	-	-
Ass. to National Res. for Tech. Trans. Sys.	\$ 409,542	\$ 372,461	\$ 37,081	-
Capital	\$ 3,969,299	\$ 3,986,257	\$ (16,958)	-
Overhead (15%)	<u>\$ 683,939</u>	<u>\$ 678,289</u>	<u>\$ 5,650</u>	-
TOTAL	<u>\$19,325,810</u>	<u>\$18,941,122</u>	<u>\$ 384,688</u>	-



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**NOTES**

1. The basis for expenditures is the Fiscal Reports prepared by ICRISAT which report expenses in accordance with generally accepted accounting principles. The reports provide cost details by budget line items, in support of the project activities billed.
2. Costs reported in the Fund Accountability Statement cover the period January 1, 1987 through December 31, 1991, the scope of this audit.
3. The amounts for "Cumulative Expenditures" are taken from the December 31, 1991 Fiscal Report adjusted for expenditures submitted to USAID from project inception through December 31, 1991.



## 2.3 FINDINGS AND RECOMMENDATIONS

### 2.3.1 Findings Breakdown

INELIGIBLE COSTS (\$)		
<b>Professional Staff</b>		
- excessive salary	<u>58,475</u>	Finding 2.3.2
<b>Support Staff</b>		
- Accounting error	(3,103)	Finding 2.3.3
- Inconsistent application	<u>14,358</u>	Finding 2.3.4
	11,255	
<b>Operations</b>		
- Accounting errors	229,225	Finding 2.3.3
- Sales tax	7,176	Finding 2.3.3
- Legal/arbitration fees	<u>52,784</u>	Finding 2.3.5
	289,185	
<b>Assistance to National Research System for Technology Transfer</b>		
- Accounting error	<u>37,081</u>	Finding 2.3.3
<b>Capital</b>		
- Accounting error	(16,958)	Finding 2.3.3
<b>Overhead</b>		
- Accounting error	( 5,275)	Finding 2.3.3
- Excessive salary	8,771	Finding 2.3.2
- Inconsistent application	<u>2,154</u>	Finding 2.3.4
	5,650	
<b>TOTAL INELIGIBLE COSTS:</b>	<u><b>384,688</b></u>	



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### **2.3.2 Professional Staff Salaries Exceed FS1 CAP**

Mandatory Standard Provisions for Non - US Governmental grantees identify allowable government related costs. One such provision identifies the maximum allowable annual salary payable to an employee. Audit tests revealed that a senior ICRISAT Bulawayo staff member received salary payments in excess of the FS1 cap by a total of \$58,475 between January 1, 1987 and December 31, 1991. Also overhead allocation was recovered of \$8,771 representing 15%.

#### ***RECOMMENDATION 1***

USAID/Zimbabwe should disallow the \$58,475 paid in excess of the FS1 cap. Also, USAID/Zimbabwe should disallow \$8,771 which represents the 15% overhead allocation.

#### ***DISCUSSION***

ICRISAT and USAID/Zimbabwe have exchanged correspondence on this issue. ICRISAT believes that USAID/Zimbabwe, through the grant amendment No.5, has accepted the ICRISAT personnel policies which cover salaries. USAID/Zimbabwe maintains that grant amendment No.5 clearly states that the FS1 salary cap applies to this grant agreement. Although ICRISAT subsequently (December 18, 1987) requested USAID/Zimbabwe to reconsider their position, we saw no further comment from USAID/Zimbabwe on the issue.

#### ***ICRISAT Comments***

ICRISAT would like USAID/Zimbabwe to consider their position and allow salary costs as approved in their personnel policy.

### **2.3.3 Incorrect Invoices Submitted to USAID/ZIMBABWE**

During the period under review, ICRISAT submitted five incorrect invoices for payment. These invoices, which failed to account for prior travel advances to employees, resulted in an overpayment to ICRISAT of \$253,421 of direct costs and an underpayment of \$5,275 in overhead. Included in the \$253,421 direct costs is \$7,176 which is the refund disallowed by the Government of Zimbabwe during the period under review, due to late and incomplete records being sent when requesting sales tax refunds.



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Mandatory Standard Provisions for US-Nongovernmental grantees, No.2, Accounting, Audit and Records (November 1984) states "The grantee shall maintain books, records, documents .... to sufficiently substantiate charges to the grant". These errors were allowed to occur because ICRISAT does not reconcile their invoices for payment with the general ledger. They also do not readjust the O/H line item for adjustments in Professional and Support staff costs.

***RECOMMENDATION 2***

USAID/Zimbabwe should disallow direct costs of \$253,421 and account for the \$5,275 overhead underbilling.

***DISCUSSION***

The incorrect billing was mainly due to ICRISAT not properly accounting for funds which had been received and non inclusion of external auditor adjustments in fiscal reports after the audit.

ICRISAT staff in Bulawayo have accepted the above recommendation including an improvement in the system of internal control in order to avoid similar errors in the future. Sales tax refund claims are now being submitted promptly to avoid any disallowance by the Government of Zimbabwe.

***USAID/ZIMBABWE COMMENTS***

The mission notes that these errors were made prior to the arrival of the current ICRISAT financial advisor/controller.



#### **2.3.4 Inconsistent Application of Direct and Indirect Support Staff Costs**

During the period under review an ICRISAT Center fiscal division member of staff in India was paid \$14,358. ICRISAT claimed for these amounts as direct costs as there was a provision in the grant agreement that allowed up to three ICRISAT Center employees to be charged as a direct cost to the project. Members of staff performing similar work are being considered as indirect costs on other projects. We found no conclusive evidence that the member of staff only performs SADCC ICRISAT related work. Treating the employee as a direct cost when he did not exclusively work on the project can result in overbilling to USAID/Zimbabwe. The associated overhead content of \$2,154 for the employee has also been identified under ineligible overhead costs.

#### ***RECOMMENDATION 3***

USAID/Zimbabwe and ICRISAT should resolve whether the direct cost of \$14,358 and overhead charge of \$2,154 relating to employee B T Chary, be allowed.

In future, a time recording system, such as the use of timesheets, should be implemented in order to determine direct and indirect costs. ICRISAT Center should change staff time in a fashion that is consistent for all grants and all donors.

#### ***DISCUSSION***

ICRISAT has included the salary costs of the employee as a direct cost as the grant includes this provision. The treatment of salary costs of this employee is unique and is inconsistent with ICRISAT Hyderabad staff performing similar work for other projects.

ICRISAT provided us with internal correspondence which discussed the direct charging of core positions to USAID/Zimbabwe. This correspondence indicates that ICRISAT officials made attempts to ensure that employees compensated through USAID/Zimbabwe grants worked exclusively on USAID/Zimbabwe project related activities. ICRISAT officials also provided us with a job description that identified the various USAID/Zimbabwe project related tasks that the individual staff member is responsible for.



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#### ***USAID/ZIMBABWE COMMENTS***

USAID/Zimbabwe agrees that the salary cost of the accountant should not be a direct cost.

#### **2.3.5 Ineligible Legal/Arbitration Expenditures**

ICRISAT Matopos spent \$52,784 on legal fees and arbitration costs to seek re-performance of work performed by a building contractor. USAID/Zimbabwe officials believe that ICRISAT should have informed USAID/Zimbabwe officials of the issue/situation before ICRISAT incurred such significant legal costs. ICRISAT officials were not aware of any requirements to notify USAID/Zimbabwe prior to incurring material legal fees. The effect of the activities may have resulted in incurred costs that did not further project objectives.

#### ***RECOMMENDATION 4***

USAID/Zimbabwe and ICRISAT officials should resolve the issue of the incurred legal and arbitration costs totalling \$52,784 that have been classified as ineligible.

#### ***DISCUSSION***

ICRISAT officials believe that their actions were prudent given the situation they were faced with.

Per review of OMB Circular A-122, U.S. Mandatory Standard Provisions, and the grant agreement, we found no support to exclude these legal and arbitration costs which appear to be reasonable, allocable, and allowable.

#### ***SUBSEQUENT ACTIVITIES***

ICRISAT Bulawayo officials informed us that the court ruled that the building contractor was supposed to repair all faults on the building. This has since been done. However, there was no ruling that the contractor should refund ICRISAT for all legal/arbitration fees incurred.

## *Price Waterhouse Meyernel*



### 3. INTERNAL CONTROL STRUCTURE

#### 3.1 INDEPENDENT AUDITOR'S REPORT

We have audited the Fund Accountability Statement of the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT), under USAID/Zimbabwe Regional Sorghum and Millet Research Project No. 690-0224 for the period January 1, 1987 through December 31, 1991 and have issued our report thereon dated May 8, 1992.

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

In planning and performing our audit of the Fund Accountability Statement of ICRISAT for the period January 1, 1987 through December 31, 1991, we considered the project's internal control structure in order to determine our auditing procedures, for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The management of ICRISAT is responsible for establishing and maintaining an internal control structure for the USAID/Zimbabwe Regional Sorghum and Millet Research Project No. 690-0224. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the Fund Accountability Statement 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 as they relate to the Regional Sorghum and Millet Research Project in the following categories:

- Control Environment
  - Overhead calculation
- Accounting System
  - Expense classification and recording
  - Expense approval
- Control Procedures
  - Extraction of transaction details into statements to USAID/Zimbabwe.

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

We noted 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 judgment, could adversely affect the entity's ability to record, process, summarize and report Fund Accountability data consistent with the assertions of management in the Fund Accountability Statements.

The following reportable conditions were observed:

- the ICRISAT Matopos accounting system is not capable of properly accounting for the types, complexity and volume of transactions
- the ICRISAT Matopos accounting system does not properly classify record and report USAID/Zimbabwe grant transactions
- invoices to USAID/Zimbabwe are not reconciled with the general ledger
- ICRISAT has never performed an overhead rate computation.



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A material weakness is a reportable 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 functions.

Our consideration of the internal structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of ICRISAT in a separate letter dated June 3, 1992.

Financial 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 information of ICRISAT and the United States Agency for International Development but this is not intended to limit the distribution of the report if a matter of public record.

*Price Waterhouse Meyers*

May 8, 1992



## **3.2 INTRODUCTION**

### **3.2.1 Definition**

American Institute of Certified Public Accountants (AICPA) Codification of Auditing Standards, section 319, defines an organization's internal control structure as consisting of the policies and procedures established to provide reasonable assurance that a specific entity's objectives will be achieved. The internal control structure is composed of three elements:

- the control environment
- the accounting system
- control procedures

The control environment reflects the overall attitude, awareness and actions of management. The accounting system consists of methods and records established to identify, assemble, analyze, classify, record and report transactions. Control procedures are those policies and procedures in addition to the control environment and accounting system that management has established to safeguard the organization's resources.

In Section 3.3 below, we have classified our findings and recommendations by these three elements of the auditee's internal control structure.

## **3.3 FINDINGS AND RECOMMENDATIONS**

### **3.3.1 The ICRISAT Matopos Accounting System is not Capable of Properly Accounting for the Types, Complexity and Volume of Transactions**

Mandatory Standard Provisions for US Non-Governmental Grantees, No.2, states "The grantee shall maintain books, records, documents ... to sufficiently substantiate changes to the grant." ICRISAT uses LOTUS 1-2-3 spreadsheets and some manual books and records to track project financial activity. However, the scope and complexity of the financial transactions overwhelm the capacity of the system and financial staff. Without an integrated accounting system, the Matopos staff cannot cope with multi-currency, donor specific expense identifications leading to financial misstatements.



***RECOMMENDATION 5***

ICRISAT should implement an integrated accounting system which can account for multiple currencies, multiple projects and donor specific reporting. This system could be manual, or a commercial accounting software package.

***DISCUSSION***

ICRISAT staff agree that their current system is not ideal. They looked into setting up a commercial package but ran into some problems. They have agreed to re-visit the issue.

***USAID/ZIMBABWE COMMENTS***

Mission officials state that "for the past two years ICRISAT has had an accounting system in place (LOTUS) which does allow for properly classifying, recording and reporting of transactions. Most of the ineligible costs arise from transactions over two years old and total less than 1.5% of the total expenditures reported under the grant".

***FURTHER DISCUSSION***

We agree that the accounting system has improved over the past two years and that major accounting errors have been substantially reduced, however, we maintain that LOTUS 1-2-3 does not constitute an accounting system. LOTUS is not double-entry, it does not check for duplicate entries, it is not self balancing, and it is totally dependent on the individual or individuals operating the software. We agree that the individual currently responsible for operating the LOTUS spreadsheets is diligent and competent, but we cannot base our opinion on the adequacy of the accounting system on the abilities of the LOTUS operator.

The mission official correctly points out that most of the ineligible costs arise from transactions over two years old and total less than 1.5% of total grant expenditures. Our tests noted several accounting errors in the past two years that offset and result in non-material differences. This gives us concern that the *system* does not self reconcile or have any safeguards for potential material errors.

When evaluating the effect of accounting errors, 1.5% of total transactions may appear insignificant, however, materiality is defined considering percentages and total value. We agree that 1.5% is a small percentage, however, the total value (both debits and credits) of \$291,642 of errors is itself significant.



### **3.3.2 ICRISAT does not Calculate an Overhead Rate**

Since project inception ICRISAT has applied a 15% overhead charge. However, it has never performed a rate computation to determine if 15% is reasonable or justifiable. OMB Circular A-122 requires that the grantee determine an overhead rate by identifying direct and indirect expense pools, and cost bases.

#### ***RECOMMENDATION 6***

ICRISAT should calculate their overhead rate following the guidelines provided in OMB Circular A-122.

#### ***DISCUSSION***

ICRISAT officials stated that they never performed a calculation because the 15% that they charged to all projects appeared to be low and very reasonable.

We devoted a substantial amount of time performing an overhead rate analysis and determined that for the fiscal year ended December 31, 1990 the rate applicable to the project under review was approximately 32.7%.

In our discussions with ICRISAT management, we explained that AID regulations require that the overhead rate be calculated on a regular basis, even if the rate is higher than the amount charged to the project. ICRISAT officials stated that they were not aware of this requirement, but would begin calculating the overhead rate on an annual basis. We noted that the new ICRISAT Internal Audit Manager is an American who has strong experience with OMB Circular A-122. We believe he will be able to perform the calculations with little difficulty.

### **3.3.3 Advances should be Better Managed**

As at December 31, 1991 the USAID/Zimbabwe advance and deposit fund balance was \$72,320. Some advances were more than a year old, including staff loans that totalled \$16,651. \$2,028 was advanced to a petrol station as a form of deposit so that fuel could be purchased on credit.



***RECOMMENDATION 7***

ICRISAT should make attempts to reduce and recover funds advanced to members of staff. Monies on deposit with the petrol station should be withdrawn and deposited in an interest bearing bank account. Wherever possible, credit facilities should be sought from suppliers rather than providing advances.

***DISCUSSION***

ICRISAT officials agreed that efforts should be taken to reduce the balance of the advance account.

**3.3.4 Fixed Assets not Properly Accounted for**

The ICRISAT fixed assets register does not contain the details required under the grant agreement. The cost of buildings is not accumulated, fixed assets are not classified between land, buildings, motor vehicles, etc. Also, there is no cumulative record of fixed assets. The location of assets is not clearly identified.

***RECOMMENDATION 8***

A detailed fixed asset register should be maintained which captures the cumulative value of the assets, and other relevant data as required by the grant agreement standard provision.

***DISCUSSION***

ICRISAT officials stated that they recently realized the weakness in their asset management system and started keeping the essential details in 1991. They stated that they will continue the practice for the remaining years of the grant agreement.



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### **3.3.5 Invoices are not Reconciled for Funds Received from, or Expenses Disallowed by USAID/Zimbabwe**

As noted more fully in finding 2.3.3, ICRISAT accounting staff were not properly accounting for funds received from, or disallowed by, USAID/Zimbabwe. This led to incorrect invoices (fiscal reports) being submitted to USAID/Zimbabwe. As no reconciliation was performed, these errors carried forward to subsequent invoices.

#### ***RECOMMENDATION 9***

ICRISAT invoices to USAID/Zimbabwe should take into account funds received from and disallowances made by USAID/Zimbabwe.

#### ***DISCUSSION***

ICRISAT management agreed that performing regular reconciliations of receipts and disallowances would strengthen their system of internal controls. They agreed to adjust their accounting records for the items identified in the audit.

#### ***USAID/ZIMBABWE COMMENTS***

Mission officials note that ICRISAT now accounts for funds received as well as disallowances. The cumulative figures are not usually adjusted immediately due to processing times both at ICRISAT and USAID/Zimbabwe.

## *Price Waterhouse Meyers*



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### **4. COMPLIANCE WITH COOPERATIVE AGREEMENT PROVISIONS AND APPLICABLE US GOVERNMENT LAWS AND REGULATIONS**

#### **4.1 INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE**

We have audited the Fund Accountability Statement of ICRISAT under USAID/Zimbabwe Regional Sorghum and Millet Research Project no. 690-0224 for the period January 1, 1987 through December 31, 1991, and have issued our report thereon dated May 8, 1992.

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

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

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Fund Accountability Statement. The results of our tests of compliance disclosed the following material instances of noncompliance.

Instances of material non-compliance included the utilization of USAID funds for non USAID related activities, and the failure to calculate annual actual overhead rates.

We considered these material instances of noncompliance in forming our opinion on whether ICRISAT's January 1, 1987 through December 31, 1991 Fund Accountability Statement is presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report on the Fund Accountability Statement dated May 8, 1992.



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

Financial 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 information of ICRISAT and the United States Agency for International Development but this is not intended to limit the distribution of the report if a matter of public record.

*Price Waterhouse*  
*Alaymel*

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May 8, 1992



## 4.2 INTRODUCTION

USAID requires all grantees, regardless of the country or legal entity, to comply with the terms and conditions included in the cooperative agreement, attached provisions and referenced procurement regulations. In general, such compliance cannot be waived by a Mission or by AID/Washington.

Steps performed in this audit to test compliance with the agreement and related provisions included:

- a review of cooperative agreement provisions and related regulations to identify those provisions and regulations which could have a material affect on the financial statements
- audit procedures including detailed testing to evaluate ICRISAT's compliance with these provisions and regulations.

## 4.3 FINDINGS AND RECOMMENDATIONS

### 4.3.1 ICRISAT is not Submitting Financial and Technical Reports as per Grant Agreement Provisions

Attachment C to the grant agreement requires that ICRISAT provide USAID/Zimbabwe with quarterly financial status reports and semi-annual technical progress reports. Step C.1 states: "Information required for the financial reports in the form in which they are to be submitted will be provided by AID in a Project Implementation letter and will include the following minimal information:

- (a) A summary of the deposits, withdrawals and balance of the separate bank account.
- (b) A detailed accounting of disbursements for the US dollar costs of goods and services.
- (c) A detailed accounting of the local currency costs of goods and services, the exchange rates used, and the US dollar equivalent.



Step C.2 describes the requirements of the semi-annual narrative progress reports. The monthly financial reports submitted to USAID/Zimbabwe do not include some of the minimal information as per Step C.1, nor is the missing information presented in any other report. No semi-annual narrative progress reports have been submitted. Without complete financial and technical progress reporting, USAID/Zimbabwe officials may not be able to properly monitor the project.

***RECOMMENDATION 10***

ICRISAT should prepare and submit financial and technical progress reports as required in the grant agreement, or USAID/Zimbabwe should amend the agreement to delete provisions which are not applicable.

***DISCUSSION***

USAID/Zimbabwe officials believe that the monthly financial information they receive is adequate to properly monitor the project. We agree that the monthly reports are comprehensive and that they give mission officials a significant amount of relevant information, however, they do not include some of the minimal requirements as noted above. We believe a PIL modifying the minimal reporting requirements should be issued.

**4.3.3 Utilization of USAID/Zimbabwe Funds for Other Donor Project Activities**

ICRISAT project officials have transferred funds between the USAID/Zimbabwe, CIDA and GTZ accounts to pay for project activities. They transferred funds on a temporary basis to cover for delays in receipts from the various donors. USAID Mandatory Standard Provisions for Non-US Governmental grantees require that recipients maintain separate accounts for USAID funds and only utilize those funds for USAID supported project activities. Utilization of USAID funds for non-USAID related activities, in conjunction with the weak accounting system noted in finding 3.3.1, may result in USAID/Zimbabwe funds supporting extra-project activities.

***RECOMMENDATION 11***

ICRISAT should zero out the balances due to, and from, the various donors and maintain strict segregation of funds in the future.



***DISCUSSION***

ICRISAT officials explained that the transfers between grantor funds is only on a temporary basis and is necessary due to the occasional delays in receipt of funds from donors. They stated that the flow of funds was well controlled and not prejudicial to any one donor. They agreed that, in a perfect world, where invoices were submitted or paid on time, the transfer of funds would not be necessary. We suggested that the project temporarily borrow ICRISAT Core funds to make up any shortfalls in individual donor payments. We note that the balance between the USAID/Zimbabwe and CIDA accounts has been cleared.



## 5. OTHER MATTERS

### 5.1 FINDINGS

Certain additional steps were requested by USAID/Zimbabwe in our scope of work. The following findings and observations address the issues that are not covered elsewhere in the report.

#### 5.1.1 Financing of Ineligible Costs with USAID/Zimbabwe Funds

In our audit tests and reviews, other than where identified in the findings in the previous sections, we noted no instances where ICRISAT officials utilized USAID/Zimbabwe funds for activities inconsistent with project goals or allowable USAID/Zimbabwe regulations.

#### 5.1.2 Home Office or Bulawayo Office Costs that Appear Extraordinarily High; and, the High Utilization of Grant Funds that will Only Cover Expenditure Planned through October 1992 instead of the Project Completion Date of September 1993

The explanations for the two matters noted above are related and best discussed together. In our audit tests we noted that almost all of the project vehicles were purchased using funds from the USAID/Zimbabwe grant. However, some of the vehicles are actually used by staff working on CIDA and GTZ related components of the project. (*Note:* there are no donor restrictions as to how vehicles should be used). We also noted that several employees such as the Personnel/Accounts Officer, Purchasing Clerk, Storeman and secretaries were identified as providing services to all three donors, but were wholly paid from USAID/Zimbabwe grant funds.

On discussing this situation with ICRISAT officials, we suggested that it was not equitable for USAID/Zimbabwe to pay for a disproportionate share of vehicle and salary costs. We suggested that USAID/Zimbabwe's share of these costs should be proportional to its percentage of the total project budget. ICRISAT officials agreed with our observations and agreed to reallocate some of the vehicles and employee costs to CIDA and GTZ related sub-programs. This reallocation should reduce the level of funding provided by USAID/Zimbabwe over the remaining project life and ensure project completion with the remaining funds.

**APPENDIX 1**

**ICRISAT COMMENTS**



# SADCC/ICRISAT

## SORGHUM MILLET IMPROVEMENT PROGRAM

Telephone:  
Town Office: 79563  
Matopos: 183-8311/2/3/4  
Telex: 33070 ICISAD ZW  
Fax: 76658

P.O. Box 776  
BULAWAYO  
ZIMBABWE

### FAX MESSAGE

To: Price Waterhouse Johannesburg, S.A.  
Attn: Doug Franke, IQC Audit Director  
From: Alfred Schulz, Regional Administrator  
Date: 20 November 1992  
Subject: Non-Federal Audit of ICRISAT/SMIP  
Project No. 690-0224  
Fax No.: (011) 403-1845

No. of pages including this one: One

MESSAGE--MESSAGE--MESSAGE--MESSAGE--MESSAGE--MESSAGE

Dear Doug,

ICRISAT Center's Director of Finance has instructed me to pass on to you the following comments on the second draft of the subject audit submitted by Price Waterhouse.

All comments to the first draft still apply to all those sections remaining in the second draft except for section 3.3.1 where SMIP comments should be changed to the following:

Quote: SMIP is using Lotus as a tool in the implementation of an accounting system that is double entry, integrated and has verification processes that check for duplicate entries and proper balancing as in any traditional accounting system. The system itself, using Lotus, is capable of accounting for multiple currencies and multiple projects and satisfying donor requirements.

In any case, ICRISAT will review this issue as soon as possible and changes will be made as necessary, in keeping with an overall review and upgrading of ICRISAT's accounting systems in all locations. Unquote

Thanks for all your help and comments. I look forward to receiving PW's final audit report.

cc. LKM, GM, JGR, M. Lewellyn (USAID/Harare), John Burns (Regional Inspector General Office/Audit Nairobi)



**SADCC/ICRISAT**  
**SORGHUM MILLET IMPROVEMENT PROGRAM**

Telephone:  
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P.O. Box 776  
BULAWAYO  
ZIMBABWE

Mr. Douglas Frank  
Price Waterhouse  
90 Rivonia Road  
Sandown 2146  
SOUTH AFRICA

16 October 1992

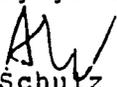
Dear Doug,

As promised, please find ICRISAT Bulawayo and ICRISAT Center comments to the PW draft audit report on SMIP.

I once again sincerely apologize for this long delay in sending our comments. I look forward to seeing the new audit report you mentioned.

Thanks.

Sincerely yours,

  
Alfred Schurz  
Regional Administrator

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USAID AUDIT FOR THE PERIOD JANUARY 1, 1987 THROUGH DECEMBER 31, 1991

<u>AUDITORS REPORT</u>	<u>SMIP's Comments</u>	<u>ICRISM Center Comments</u>
1. INTRODUCTION		
1.1 BACKGROUND	1.1. No comment	
1.2 AUDIT OBJECTIVES AND SCOPE	1.2. No comment	
<p>The objectives of the audit were to perform a financial audit in accordance with generally accepted auditing standards and the standards of the US Controller General's Government Auditing Standards (1986 Revision) and to report on:</p> <ul style="list-style-type: none"><li>- the fairness of the Fund Accountability Statement for the auditee (in accordance with SAS 62)</li><li>- auditee's internal control structure with respect to program operations (in accordance with SAS 63), and</li><li>- the auditee's compliance with the grant provisions and applicable US laws and regulations (in accordance with SAS 63).</li></ul> <p>The mission also requested that the auditors assess:</p> <ul style="list-style-type: none"><li>- the financing of ineligible costs (e.g. office tea, parties, legal fees)</li></ul>		

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<u>Auditors Report</u>	<u>SHIP's comments</u>	<u>ICRISAT Center's comments</u>
<p>- accuracy and validity of an overhead rate of 15% being used by ICRISAT</p> <p>- non-submission of sales tax receipts to USAID/Zimbabwe so that a claim can be forwarded to Government of Zimbabwe for reimbursement</p> <p>- home office or Bulawayo office costs that appear extraordinarily high (e.g. possibly due to replacement of high value capital items, increase in salaries in Hyderabad or increased allocation of Hyderabad staff time and salaries to USAID grant)</p> <p>- the high utilization of grant funds that will only cover expenditures planned through October 1992 instead of the project completion date of September 1993</p> <p>-review of all costs for allowability, allocability and reasonableness.</p> <p>The scope of the audit included the annual financial statements, accounting records, underlying source documents, memorandum records, contractual documents and correspondence, the overhead rate calculations prepared by Inspector General for Audit/Nairobi, performed in June 1987, for activity from project inception through March 31, 1987. The period of our review was from January 1, 1987 through December 31, 1991.</p>		

<u>Auditors Report</u>	<u>SMIP's comments</u>	<u>ICRISAT Center's comments</u>
<p data-bbox="174 255 360 287"><b>1.3 METHODOLOGY</b></p> <p data-bbox="174 319 687 694">Price Waterhouse conducted the initial survey of the accounting records from December 12 to December 16 1991 at the ICRISAT offices near Bulawayo . PW subsequently prepared its audit work plan for approval by RIG/A/M, secured approval and performed the fieldwork at Bulawayo from February 3-28 1992, April 14-16 1992 and at ICRISAT headquarters in Hyderabad India from March 30 to April 10. PW completed their final tests at Bulawayo on April 27 and May 5, 1992. Report preparation was performed at our offices in Johannesburg.</p> <p data-bbox="174 718 567 750">The audit steps performed included:</p> <ul data-bbox="174 782 698 1308" style="list-style-type: none"> <li>- meeting with USAID/Zimbabwe officials to discuss Mission audit concerns, survey results, prior RIG audit reports, absence of standard mandatory grant provisions and audit schedules</li> <li>- reviewing the grant documentation (grant agreement, amendments, PILS, standard USAID provisions to the extent applicable), project correspondence, budgets and program evaluations to gain an understanding of the goals, and objectives - of the grant, the activities being financed by USAID, the types of costs incurred under the project, and the financial procedures and requirements placed upon ICRISAT by USAID</li> <li>- reviewing applicable AICPA Statement on Auditing Standards, "Yellow Book" Standards</li> </ul>	<p data-bbox="742 255 906 287">1.3. No comment</p>	

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<u>Auditors Report</u>	<u>SHIP's comments</u>	<u>ICRISAT Center's comments</u>
<ul style="list-style-type: none"><li>- performing walk-throughs of the accounting systems (vendor invoice, payroll, journal voucher, travel) to confirm understanding and identity areas for audit testing</li> <li>- detailed transaction testing in the selected accounts to determine the extent of acceptable, allowable, or unallowable expenses</li> <li>- reconciling ICRISAT invoices to USAID records</li> <li>- reviewing the indirect schedules, including indirect expense pools, direct cost allocation bases, identification of allowable and unallowable expenses, and consistency of methodology between projects and over time</li> <li>- reviewing the internal control structure including the control environment, accounting system and control procedures, as well as performing a fraud and error control analysis</li> <li>- confirmation of ICRISAT compliance with grant provisions including reporting requirements, exclusion of local taxes, methodologies for liquidation of advances, adherence to mandatory US Government standard provisions and cost principles, etc.</li></ul> <p>other matters raised by USAID/Zimbabwe officials.</p>		

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<u>Auditors Report</u>	<u>SHIP's comments</u>	<u>ICRISAT Center's comments</u>
<b>1.4 SUMMARY OF AUDIT RESULTS</b>	1.4	
<p>The audit tests identified \$384,688 of questioned costs and \$34,986 of unsupported costs. The details of the questioned costs can be found in the findings section following the report on the Fund Accountability Statement.</p>	<p>Unsupported costs of \$34,986 have been fully identified. This comment is no longer applicable.</p>	No comment.
<p>Our review of internal controls identified numerous instances where controls could be improved and strengthened as noted in the findings section following our report on the internal control structure.</p>	<p>The statement on material weakness is unsubstantiated as we assume it refers principally to allegations that the ICRISAT Matopos accounting system and USAID (NACS) accounting records had differences amounting to \$624,354 and that ICRISAT was unable to come up with supporting documentation for payments totalling \$33,986. In fact, no difference between accounting records ever existed as auditors had compiled incomplete information at USAID.</p>	We agree.
<p>One material weakness in the internal control structure was observed - the ICRISAT Matopos Accounting System does not properly classify, record and report USAID grant transactions.</p>	<p>All payments made by SHIP now have supporting documentation. This leaves approximately \$384,688 in "questioned costs" wherein it must yet be decided whether expenses were legitimately incurred or not. We feel confident that at least some of these costs will prove to be fully acceptable. In any case, the questioned costs make up only 1.5% of total costs incurred through 1991. We feel that, given this percentage (which is sure to be lower); and the fact that original claims of disagreement between ICRISAT Matopos and USAID records are unfounded; and because all costs have adequate supporting documentation, there is no justification for the auditors to state that</p>	
<p>The review of compliance with grant provisions and regulations identified a number of material non-compliances including: incomplete financial and technical reporting, utilisation of grant funds for non-USAID related activities, lack of an adequate accounting system to separately account for grant expenditures and failure to calculate annual actual overhead rates.</p>		

Auditors Report

Our findings are described in detail following the report on Compliance with Agreement Terms and Applicable Laws and Regulations.

SMIP's comments

the ICRISAT Matopos accounting system is not capable of handling the types and volumes of transactions encountered and that auditors are not justified in citing this as a reportable condition of a material weakness as defined within the draft audit report.

Finally, it should be noted that there has been a significant improvement in the system since the introduction of use of Lotus 1-2-3 in early 1991. ICRISAT is fully capable of proper classification, recording and reporting of USAID grant transactions and is up to date in its financial reporting.

In regard to financial reporting, Attachment C of the Grant Agreement dated 30 September 1983 states that information required for the financial reports in the form in which they are to be submitted will be provided by AID in a Project Implementation Letter. The format for this reporting was never provided by USAID. USAID never requested this information at any time since the inception of the project and has expressed satisfaction with the current financial reporting which is sent on a monthly rather than a quarterly basis. The semi-annual status reports were not submitted as required. However, these also were never requested by USAID.

ICRISAT has been complying fully with reporting requirements, as required by USAID.

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Auditors Report

Our tests of other matters raised by USAID/Zimbabwe identified that, ICRISAT's overhead rate, applied to salaries and support costs, is 32.7%; that sales tax receipts were not reclaimed from Government of Zimbabwe on a timely basis, resulting in some disallowances; and that grant funds are being consumed at a faster rate than planned due to ICRISAT charging for a disproportionate share of common costs which should be properly allocated to the Canadian and German aid agency grants.

SHIP's comments

To our knowledge USAID grant funds were never utilized for non-USAID related activities. Donor delays in processing advances occasionally left bank balances dry in one grant or another; monies from other grants were thus used to temporarily offset these balances until advances had been received. When advances were received the loaning grant was reimbursed. However, at no time have USAID funds actually been used to pay for activities scheduled under other grants. The statement that grant funds have been used for non-USAID related expenses is misleading.

The accounting has always been adequate to separately account for grant expenditures. USAID is one of three grantors, each of which has totally separate and independent bank accounts, ledgers and reporting mechanisms. The statement that there is a lack of an adequate accounting system to separately account for grant expenditures is incorrect.

In regard to grant funds being consumed at a faster rate than planned due to ICRISAT charging for a disproportionate share of common costs which should be properly allocated to CIDA and GTZ, this occurred based on the original Project Paper Supplement No. 1 and Grant Amendment No. 6 which states that the USAID grant was assigned to cover, for instance, all Administration and Farm Development/Management (FDM) costs in spite of the fact that these were support services for the entire program including those activities underwritten by the CIDA and GTZ grants. Grant

ICRISAT Center's comments

Though temporary usage due to cash flow problems has been done, no drain of USAID funds has happened. This will also be avoided in the future.

In regard to overhead rate, ICRISAT has been charging 15% for overhead and indirect cost as a policy on all complementary grants including SADCC/ICRISAT SHIP, even though actual costs are higher. Price-Waterhouse auditors have corroborated per USAID method, that overhead was 32.7%. The following rates of overhead are based on actual expenditures of 1990:

	<u>On campus</u>	<u>Off campus</u>	<u>Combined</u>
Restricted	34%	56%	44%
Complementary	34%	20%	22%

Although higher overhead rates could have been charged in past years, funds available for research would have been reduced. The rate of overhead charges is a policy decision of ICRISAT's board. In addition, circular ONB 122 does not apply since it is not incorporated in the grant agreement.

<p>1.5 SUMMARY OF MANAGEMENT COMMENTS</p> <p>(This section is reserved for the final report).</p> <p>2. FUND ACCOUNTABILITY STATEMENT</p>	<p><u>SHIP's Comments</u></p> <p>1.4 Continued</p> <p>Amendment No. 6 put a disproportionate share of common costs on the USAID grant resulting in a rapid depletion of USAID resources and a concomitant under use of funds in the CIDA and GTZ grants. This problem has since been discussed with all donors and it has been agreed that costs previously charged under the USAID grant, including Administration and FDO activities among others, would be charged to the other grants. A consequent budget reallocation exercise will take place for submission to all three grantors.</p> <p>The effect of this is to guarantee that USAID funds will last through the grant period as originally planned without need for additional funds and without sacrificing any of the project's goals and objectives. A request for an amendment to the USAID grant will be forthcoming and will ensure that other donors will be required to assume the cost of support services that run across the entire program.</p>	
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<u>Auditors Report</u>	<u>SNIP's comments</u>	<u>ICRISAT Center's comments</u>
<p data-bbox="185 167 687 223"><b>2.1 INDEPENDENT AUDITORS OPINION OF THE FUND ACCOUNTABILITY STATEMENT</b></p> <p data-bbox="185 263 709 1061">We have performed a financial audit of the Fund Accountability Statement of the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT), Regional Sorghum and Millet Research Project No. 690-0224 for the period January 1, 1987 through December 31, 1991. This statement is the responsibility of ICRISAT. Our responsibility is to express an opinion of this financial statement based on our audit. We conducted our audit in accordance with generally accepted auditing standards and in accordance with the Government Auditing Standards issued by the Controller General of the United States (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in this statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our auditing provides a reasonable basis for our opinion.</p> <p data-bbox="185 1093 687 1212">As described in the notes following the Fund Accountability Statement, the Statement was prepared on the basis of generally accepted accounting principles.</p>	<p data-bbox="742 167 1244 223"><b>2.1 <u>Independent Auditors Opinion of the Fund Accountability Statement</u></b></p>	

<u>Auditors Report</u>	<u>SHIP's comments</u>	<u>ICRISAT Center's comments</u>
<p>We have identified certain expenses and transactions that, in our opinion, are questioned or unsupported for reimbursement under the Grant Agreement between ICRISAT and the United States Agency for International Development. With respect to incurred expenditures, the results of our audit include \$384,688 of questioned costs and \$34,986 in unsupported costs.</p> <p>We noted that AID/Zimbabwe and ICRISAT accounting records for the period under audit, disagree by a total of \$624,354 due to unreconciled differences.</p> <p>In our opinion, except for the amounts stated in notes 2 and 3, the Fund Accountability Statement presents fairly in conformity with the basis of accounting described in the notes following the Fund Accountability Statement, the expenses for ICRISAT Project No. 690-0224 for the period January 1, 1987 through December 31, 1991.</p>	<p>Unsupported costs of \$34,986 have since been fully documented.</p> <p>Unreconciled differences of any amount never existed. Information compiled by auditors was incomplete. All references to unreconciled differences should be deleted from the report.</p>	<p>We agree.</p> <p>USAID have since confirmed that there are no differences at all.</p>

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<u>Auditors Report</u>	<u>SNIP's comments</u>	<u>ICRISAT Center's comments</u>
<p>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.</p> <p>This report is intended solely for the use of the United States Agency for International Development and the management of ICRISAT and should not be used for any other purpose.</p> <p><b>2.2 Fund Accountability Statement</b></p> <p>1. The basis for expenditure is the Fiscal Reports prepared by ICRISAT which report expenses in accordance with generally accepted accounting principles. The reports provide cost details by budget line items, in support of the project activities billed.</p> <p>2. Costs reported in the Fund Accountability Statement cover the period January 1, 1987 through December 31, 1991, the scope of this audit.</p> <p>3. The amounts for "Cumulative Expenditures" are taken from the December 31, 1991 Fiscal Report adjusted for expenditures submitted to USAID from project inception through December 31, 1986.</p> <p><b>2.3 FINDINGS AND RECOMMENDATIONS</b></p> <p>2.3.1 Findings Breakdown (see table in original report)</p> <p>2.3.2 Professional Staff salaries Exceed FSI</p>		

<u>Auditors Report</u>	<u>SHIP's comments</u>	<u>ICRISAT Center's comments</u>
<p>Mandatory Standard Provisions for Non - US Governmental grantees identify allowable government related costs. One such provision identifies the maximum allowable annual salary payable to an employee. Audit tests revealed that a senior ICRISAT Bulawayo staff member received salary payments in excess of the FSI cap by a total of \$58,474 between January 1, 1987 and December 31, 1991.</p>	<p>ICRISAT Center to comment</p>	<p>Contract does not include this requirement, notwithstanding U.S. Government's requirements. This is permitted as per clause 4 of Grant Amendment No. 5 dated 27 June 1988. OKB Circular A-122 does not apply unless incorporated in the grant.</p>
<p><b>RECOMMENDATION 1</b></p>	<p>IC to comment</p>	<p>These should not be disallowed in the light of our explanation as above.</p>
<p>USAID/Zimbabwe should disallow the \$58,474 paid in excess of the FSI cap. Also, USAID should disallow \$8,771 which represents the 15% overhead allocation on the amount questioned.</p>	<p>IC to comment</p>	<p>As above.</p>
<p><b>DISCUSSION</b></p>		
<p>ICRISAT and USAID/Zimbabwe have exchanged correspondence on this issue. ICRISAT believes that AID, through the grant amendment No. 5 has accepted the ICRISAT personnel policies which cover salaries. AID/Zimbabwe maintains that grant amendment No. 5 clearly states that the FSI salary cap applies to this grant agreement. Although ICRISAT subsequently (December 18, 1987) requested AID/Zimbabwe to reconsider their position, we saw no further comment from AID/Zimbabwe on the issue.</p>		

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<u>Auditors Report</u>	<u>SMIP's comments</u>	<u>ICRISAT Center's comments</u>
<p><b>ICRISAT Comments</b></p> <p>ICRISAT would like AID/Zimbabwe to consider their position and allow salary costs as approved in their personnel policy.</p> <p><b>2.3.3 Incorrect Invoices Submitted to USAID/ZIMBABWE</b>  During the period under review, ICRISAT submitted five incorrect invoices for payment. These invoices, which failed to account for prior USAID advances, resulted in an overpayment to ICRISAT of \$253,421 of direct costs and an underpayment of \$5,275 in overhead. Included in the \$253,421 direct costs is \$7,176 which is the refund disallowed by the Government of Zimbabwe during the period under review, due to late and incomplete records being sent when requesting sales tax refunds.</p> <p>Mandatory Standards for US-Nongovernmental grantees, No. 2, Accounting, Audit and Records (November 1984) states "The grantee shall maintain books, records, documents .. to sufficiently substantiate charges to the grant". These errors were allowed to occur because ICRISAT does not reconcile their invoices for payment with the general ledger. They also do not readjust the O/M line item for adjustments in Professional and Support staff costs.</p>	<p><b>2.3.3</b> The invoices failed to account for internal SMIP advances, not USAID advances. The five incorrect invoices were submitted during the period from December 1988 to July 1990 only. The statement implies that ICRISAT still does not reconcile their invoices to the general ledger. This is erroneous. Since the introduction of a new Accounts Officer, Administrative Officer, and use of computers and Lotus 1-2-3 in 1991, reconciliation takes place on a monthly basis. The situation has been under control for approximately the past year and half. The improvement in the system of internal control has already taken place and similar errors will not and have not been repeated since beginning of 1991.</p> <p>Sales tax submissions are currently up to date.</p>	<p>We agree.</p> <p>No comments.</p>



<u>Auditors Report</u>	<u>SNIPS's comments</u>	<u>ICRISAT Center's comments</u>
<p>the member of staff only performs SADCC/ICRISAT work.</p> <p>Treating the employee as a direct cost when he did not exclusively work on the project can result in an overbilling to USAID. The associated overhead content of \$2,154 for the employee has also been identified under questioned overhead costs.</p>	IC to comment	See 2.3.4
<b>RECOMMENDATION 3</b>	IC to comment	
<p>USAID and ICRISAT should resolve whether the cost for the employee be allowed.</p>		
<p>In future, a time recording system, such as the use of timesheets, should be implemented in order to determine direct and indirect costs. ICRISAT Center should charge staff time in a fashion that is consistent for all grants, all donors.</p>		
<b>DISCUSSION</b>		
<p>ICRISAT has included the salary costs of the employee as a direct cost as the grant includes this provision. The treatment of salary costs of this employee is unique and is inconsistent with ICRISAT Hyderabad staff performing similar work for other projects.</p>		As above.
<p>ICRISAT provided us with internal correspondence which discussed the direct charging of core positions to USAID. This correspondence indicates that ICRISAT officials made attempts to ensure that employees compensated through AID grants work exclusively</p>		<p>Treatment of such salary costs is not unique. PW comment is not correct. As per attachment "D" (Financial Plan and Budget) of the original contract agreement dated September 15, 1983, IC can employ administrative staff for Bulavayo project. One staff member's costs have been charged effective March 1984. This staff member is engaged persistently on this project work, although not exclusively. This was reviewed by the PW auditors and they appeared satisfied after going through his job</p>

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<u>Auditors Report</u>	<u>SMIP's comments</u>	<u>ICRISAY Center's comments</u>
<p>on AID project related activities. ICRISAY officials also provided us with a job description that identified the various USAID project related tasks that the individual staff member is responsible for.</p> <p>2.3.5 Questionable Legal/Arbitration Expenditures</p> <p>ICRISAY Matopos spent \$52,784 on legal fees and arbitration costs to seek reperformance of work performed by a building contractor. AID/Zimbabwe officials believe that ICRISAY should have informed AID officials of the issue/situation before ICRISAY incurred such significant legal costs. ICRISAY officials were not aware of any requirements to notify AID/Zimbabwe prior to incurring material legal fees. The effect of the activities may have resulted in incurred costs that did not further project objectives.</p> <p><b>RECOMMENDATION 4</b></p> <p>AID/Zimbabwe and ICRISAY officials should resolve the issue of the incurred legal and arbitration costs that have been classified as questioned.</p> <p><b>DISCUSSION</b></p> <p>ICRISAY officials believe that their actions were prudent given the situation they were faced with.</p>	<p>2.3.5 We stand by the comments in the discussion section wherein auditors state that they found no support to exclude these legal and arbitration costs which appear to be reasonable, allocable and allowable.</p>	<p>job description also.</p> <p>Direct costs of support staff at IC to complementary projects is not unique to this project, as we are charging another staff member's costs to an ADB project.</p> <p>We agree.</p>

<u>Auditors Report</u>	<u>SMIP's comments</u>	<u>ICRISAT Center's comments</u>
<p>Per review of ONB Circular A-122, U.S. Mandatory Standard Provisions, and the grant agreement, we found no support to exclude these legal and arbitration costs which appear to be reasonable, allocable, and allowable.</p>	<p>2.3.6 This section should be deleted in its entirety as disagreement of records for any amount never existed.</p>	<p>We agree.</p>
<p>2.3.6 ICRISAT and AID/ZIMBABWE Records Disagree</p> <p>ICRISAT and AID/Zimbabwe accounting records for the period under audit, disagree by a total of \$624,354. This is due to unreconciled differences between the AID/Zimbabwe MACS reports and the ICRISAT Fiscal Reports. The total represents the sum of seven claims made by ICRISAT which do not agree with the accounting entries in the MACS system, advance payment received by ICRISAT, that is not reflected in MACS. Without reconciling the noted differences, ICRISAT cannot assume that AID/Zimbabwe has allowed for all expenses claims submitted.</p>		
<p><b>RECOMMENDATION 5</b></p>		
<p><b>ICRISAT Comments</b></p> <p>The ICRISAT Assistant Deputy General for Administration agreed that the unreconciled differences should be resolved. He stated that he will recommend that the ICRISAT Bulavayo staff perform a full reconciliation with AID as of December 31, 1991 and then perform a regular reconciliation thereafter.</p>		

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<u>Auditors Report</u>	<u>SHIP's comments</u>	<u>ICRISAT Center's comments</u>
<p data-bbox="181 135 447 167"><b>2.3.7 Unsupported Costs</b></p> <p data-bbox="181 199 709 630">ICRISAT officials were not able to provide support documentation for two claimed expenses totalling \$34,986. Mandatory Standard Provisions for Non-US Governmental Grantees state that grant recipients must maintain adequate books and records to support their claims for reimbursement. ICRISAT could not find the documentation due to weak accounting control procedures. The effect of this finding is that AID/Zimbabwe may have been charged for activities unrelated to the project. We also classify as unsupported \$1,053 which is the 15% overhead related to one of the unsupported vouchers.</p> <p data-bbox="181 662 360 694"><b>RECOMMENDATION 6</b></p> <p data-bbox="181 726 666 845">AID/Zimbabwe should request that ICRISAT accounting staff continue searching for the unsupported vouchers or request copies from suppliers.</p> <p data-bbox="181 877 294 909"><b>DISCUSSION</b></p> <p data-bbox="181 941 687 997">ICRISAT staff stated that they would continue searching for the missing vouchers.</p> <p data-bbox="181 1029 513 1061"><b>3. INTERNAL CONTROL STRUCTURE</b></p> <p data-bbox="181 1061 546 1093"><b>3.1 INDEPENDENT AUDITOR'S REPORT</b></p> <p data-bbox="181 1093 687 1181">We have audited the Food Accountability Statement of the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT),</p>	<p data-bbox="742 135 1255 199"><b>2.3.7 Supporting documentation has been found in all instances to justify payments made.</b></p>	<p data-bbox="1306 135 1408 167">We agree.</p>

<u>Auditors Report</u>	<u>SNIP's comments</u>	<u>ICRISAT Center's comments</u>
<p>Regional Sorghum and Millet Research Project No. 690-0224 for the period January 1, 1987 through December 31, 1991 and have issued our report thereon dated May 5, 1992.</p> <p>We conducted our audit in accordance with generally accepted auditing standards and 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 Fund Accountability Statement is free of material misstatement.</p> <p>In planning and performing our audit of the Fund Accountability Statement of ICRISAT for the period January 1, 1987 through December 31, 1991, we considered the project's internal control structure in order to determine our auditing procedures, for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.</p> <p>The management of ICRISAT is responsible for establishing and maintaining an internal control structure for the Regional Sorghum and Millet Research Project. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not</p>		

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<u>Auditors Report</u>	<u>SMIP's comments</u>	<u>ICRISAT Center's comments</u>
<p>absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are excepted in accordance with management's authorization and recorded properly to permit the preparation of the 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 operations of policies and procedures may deteriorate.</p> <p>For the purpose of this report, we have classified the significant internal control structure policies and procedures as they relate to the Regional Sorghum and Millet Research Project in the following categories:</p> <ul style="list-style-type: none"> <li>- Control Environment</li> <li>- Overhead calculations</li> <li>- Accounting system</li> <li>- Expense and classification and recording</li> <li>- Expense approval</li> <li>- Control Procedures</li> <li>- Extraction of transaction details into statements to USAID.</li> </ul> <p>For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have</p>		

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<u>Auditors Report</u>	<u>SNIP's comments</u>	<u>ICRISAT Center's comments</u>
<p>been placed in operation, and we assessed control risk.</p> <p>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 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 Fund Accountability data consistent with the assertions of management in the Fund Accountability Statements.</p>	<p>We believe the statement that the ICRISAT Matopos accounting system is not capable of handling the types and volumes of transactions to be untrue and do not understand on what basis the statement has been made. As stated in our comments under section 1.4, ICRISAT Matopos records fully reconcile with USAID records, all payments have supporting documentation and questioned costs are 1.5% of total costs incurred. ICRISAT is and has been fully capable of handling the types and volumes of transactions encountered. This more than ever the case with the advent of a new Administrator and Accounts Officer who have been able to introduce use of computers and Lotus 1-2-3 into the system since 1991.</p>	<p>We agree. However, Lotus 1-2-3 system will be reviewed in near future and replaced if necessary.</p>
<p>The following reportable conditions were observed:</p> <ul style="list-style-type: none"> <li>- the ICRISAT Matopos accounting system is not capable of handling the types and volumes of transactions</li> <li>- invoices to USAID are not reconciled with the general ledger</li> <li>- ICRISAT has never performed an overhead rate computation</li> </ul>	<p>Unreconciled invoices are five in number only dating from December 1988 to July 1990. Since 1991 invoices have been reconciled on a monthly basis. This has not been a problem for the latter part of the audit period. We do not feel this issue warrants a reportable condition at this point in time as it is no longer an existing or continuing problem.</p> <p>IC to comment</p>	<p>See comments under 1.4. PW is incorrect. In addition, this has nothing whatsoever to do with the internal control situation, per this part of the audit report.</p>

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<u>Auditors Report</u>	<u>SHIP's comments</u>	<u>ICRISAT Center's comments</u>
<p>A material weakness is a reportable 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 functions.</p> <p>Our study and evaluation disclosed the following conditions in the system of internal structure of ICRISAT in effect at December 31, 1991, which, in our opinion, result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the consolidated Fund Accountability Statement may occur and not be detected within a timely period.</p> <p>- the ICRISAT Matopos accounting system does not properly classify record and report USAID grant transactions.</p> <p>We also noted other matters involving the internal control structure and its operation that we have reported to the management of ICRISAT in a separate letter dated June 3, 1992.</p> <p>Information contained in this report may be privileged. The restriction USC 1905 should be considered before any information is released to the public.</p>	<p>Please refer to our comments under section 1.4 and 3.1 above and 3.3.1</p> <p>We have not received the letter of June 3 cited.</p>	

<u>Auditors Report</u>	<u>SHIP's comments</u>	<u>ICRISAT Center's comments</u>
<p>This report is intended solely for the use of ICRISAT, and the United States Agency for International Development and should not be used for any other purpose.</p> <p>3.2. INTRODUCTION</p> <p>3.2.1. Definition</p> <p>American Institute of Certified Public Accountants (AICPA) Codification of Auditing Standards, section 319, defines an organization's internal control structure as consisting of the policies and procedures established to provide reasonable assurance that a specific entity's objectives will be achieved. The internal control structure is composed of three elements:</p> <ul style="list-style-type: none"> <li>the control environment</li> <li>the accounting system</li> <li>control procedures</li> </ul> <p>The control environment reflects the overall attitude, awareness and actions of management. The accounting system consists of methods and records established to identify, assemble, analyze, classify, record and report transactions. Control procedures are those policies and procedures in addition to the control environment and accounting system that management has established to safeguard the organization's resources.</p> <p>In section 3.3 below, we have classified our findings and recommendations by these three elements of the auditee's internal control structure.</p>		<p>No comments.</p>

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<u>Auditors Report</u>	<u>SNIP's comments</u>	<u>ICRISAY Center's comments</u>
<p><b>3.3. FINDINGS AND RECOMMENDATIONS</b></p> <p>3.3.1 Accounting system does not properly classify, record and report USAID grant transactions</p> <p>* This finding is more fully discussed in sections 2.3.3, 2.3.6, 3.3.5 and 4.3.1 In order to avoid duplicate recommendations, we have not reiterated the findings and we refer to those sections.</p> <p>3.3.2 ICRISAY does not calculate an overhead rate</p> <p>Since project inception ICRISAY has applied a 15% overhead charge. However, it has never performed a rate computation to determine if 15% is reasonable or justifiable. OMB Circular A-122 requires that the grantee determine an overhead rate by identifying direct and indirect expense pools, and cost bases.</p> <p><b>RECOMMENDATION 7</b></p> <p>ICRISAY should calculate their overhead rate following the guidelines provided in OMB Circular A-122.</p> <p><b>DISCUSSION</b></p> <p>ICRISAY officials stated that they never performed a calculation because the 15% that they charged to all projects appeared to be</p>	<p>3.3.1 We reiterate our belief that this statement is untrue and do not understand on what basis the statement has been made. Please see our comments under section 1.4, 3.1 and 4.3.1 as well.</p> <p>IC to comment</p>	<p>We agree. OMB Circular A-122 does not apply.</p> <p>See comments above and section 1.4.</p>

<u>Auditors Report</u>	<u>SHIP's comments</u>	<u>ICRISAT Center's comments</u>
<p>low and very reasonable.</p> <p>We devoted a substantial amount of time to performing an overhead rate analysis and determined that for the fiscal year ended December 31, 1990 the rate applicable to the project under review was approximately 32.7%.</p> <p>In our discussions with ICRISAT management, we explained that AID regulations require that the overhead rate be calculated on a regular basis, even if the rate is higher than the amount charged to the project. ICRISAT officials stated that they were not aware of this requirement, but would begin calculating the overhead rate on an annual basis. We noted that the new ICRISAT Internal Audit Manager is an American who has strong experience with OMB A-122. We believe he will be able to perform the calculations with little difficulty.</p> <p>3.3.3 Advances should be better managed. As at December 31, 1991 the USAID advance and deposit fund balance was \$72,320. Some advances were more than a year old, including staff loans that totalled \$16,651. \$2,028 was advanced to a petrol station as a form of deposit so that fuel could be purchased on credit.</p>	<p>IC to comment</p>	

<u>Auditors Report</u>	<u>SHIP's comments</u>	<u>ICRISAY Center's comments</u>
<p><b>RECOMMENDATION 8</b></p> <p>ICRISAY should make attempts to reduce and recover funds advanced to members of staff. Monies on deposit with the petrol station would be withdrawn and deposited in an interest bearing bank account. Wherever possible, credit facilities should be sought from suppliers rather than providing advances.</p> <p><b>DISCUSSION</b></p> <p>ICRISAY officials agreed that efforts should be taken to reduce the balance of the advance account.</p> <p><b>3.3.4 Fixed Assets not properly accounted for</b></p> <p>The ICRISAY fixed assets register does not contain the details required under the grant agreement. The cost of buildings is not accumulated, fixed assets are not classified between land, buildings, motor vehicles, etc. Also, there is no cumulative record of fixed assets. The location of assets is not clearly identified.</p> <p><b>RECOMMENDATION 9</b></p> <p>A detailed fixed asset register should be maintained which captures the cumulative value of the assets, and other relevant data as required by the grant agreement standard provision.</p>	<p>Recommendation is accepted and will be implemented</p>	<p>No comments.</p> <p>Recommendation is accepted and will be implemented.</p>

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<u>Auditors Report</u>	<u>SMIP's comments</u>	<u>ICRISAT Center's comments</u>
<p><b>DISCUSSION</b> ICRISAT officials stated that they recently realized the weakness of their asset management system and started keeping the essential details in 1991. They stated that they will continue the practice for the remaining years of the grant agreement.</p> <p>3.3.5 Invoices are not reconciled to the General Ledger</p> <p>As noted more fully in finding 2.3.3, ICRISAT accounting staff were not properly accounting for funds received from, or expenses disallowed by, USAID/Zimbabwe. This led to incorrect invoices (fiscal reports) being submitted to USAID. As no reconciliation was performed, these errors carried forward to subsequent invoices.</p> <p><b>RECOMMENDATION 10</b></p> <p>ICRISAT should reconcile the invoices for payment to USAID with the general ledger, on a monthly basis.</p> <p><b>DISCUSSION</b></p> <p>ICRISAT management agreed that performing regular reconciliations would strengthen their system of internal controls. They agreed to adjust their accounting records for the items identified in the audit.</p>	<p>It is incorrect to state that ICRISAT accounting staff were not properly accounting for funds received from, or expenses disallowed by, USAID/Zimbabwe in relation to invoices not reconciled to the General Ledger. The lack of reconciliation to the General Ledger was in relation to internal SMIP advances and not monies received or disallowed by USAID. Please see comments under section 2.3.3.</p> <p>Please see our comments on section 2.3.3. Accounting records will be adjusted when the final audit report is issued.</p> <p>ICRISAT and AID/Zimbabwe records have been fully reconciled.</p>	<p>We agree.</p> <p>USAID has since confirmed that no differences existed.</p>

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<u>Auditors Report</u>	<u>SHIP's comments</u>	<u>ICRISAT Center's comments</u>
<p>As noted in finding 2.3.7, ICRISAT staff were not able to find supporting documentation for \$34,986 in claimed expenses. This was due to weak accounting control procedures.</p> <p><b>RECOMMENDATION 11</b></p> <p>ICRISAT should strengthen their controls over the maintenance of supporting documents and vouchers.</p> <p><b>DISCUSSION</b></p> <p>Our original audit tests identified thirteen instances of missing documentation totalling \$238,702. Subsequent searching by ICRISAT Matopos staff produced documentation for eleven of the vouchers. ICRISAT management stated that this weakness would be corrected and that all vouchers and supporting documentation would be kept in future.</p> <p><b>4. COMPLIANCE WITH COOPERATIVE AGREEMENT PROVISIONS AND APPLICABLE US GOVERNMENT LAWS AND REGULATIONS</b></p> <p><b>4.1 INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE</b></p> <p>We have audited the financial statements of ICRISAT for the period January 1, 1987 through December 31, 1991, and have issued our report thereon dated May 5, 1992.</p> <p>We conducted our audit in accordance with generally accepted auditing standards and</p>		

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Auditors Report

Government Auditing Standards, issued by the Controller General of the United States (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

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

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Auditors Report	SHIP's comments	ICRISAT Center's comments
<p>Material instances of noncompliance are failure to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Fund Accountability Statement. The results of our tests of compliance disclosed the following material instances of noncompliance.</p> <p>Instances of material non-compliance included the incomplete financial and technical reporting to USAID, the utilization of USAID funds for non-USAID related activities, the lack of an adequate accounting system to separately account for USAID expenses and the failure to calculate annual actual overhead.</p> <p>We considered these material instances of noncompliance in forming our opinion on whether ICRISAT's January 1, 1987 through December 31, 1991 Fund Accountability Statements is presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated May 5, 1992 on that Fund Accountability Statement.</p> <p>Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, ICRISAT complied, in all material respects, with the provisions referred to in the third paragraph</p>	<p>4.1 Instances of material non-compliance cited by auditors includes:</p> <p>a) incomplete financial and technical reporting to USAID -- please see our comments on section 1.4, paragraph 4.</p> <p>b) utilization of USAID funds for non-USAID related activities--please see our comments under section 1.4, paragraph 4 and section 4.3.3.</p> <p>c) lack of an adequate accounting system to separately account for USAID expenses--please see our comments under section 1.4 paragraph 4,</p> <p>d) failure to calculate annual actual overhead rates--ICRISAT center to comment</p>	<p>Please see our replies under earlier sections.</p> <p>Please see 1.4 for ICRISAT comments.</p>

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<u>Auditors Report</u>	<u>SNIP's comments</u>	<u>ICRISAT Center's comments</u>
<p>of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that ICRISAT had not complied, in all material respects, with those provisions.</p> <p>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.</p> <p>This report is intended solely for the use of ICRISAT, and the United States Agency for International Development and should not be used for any other purpose.</p> <p><b>4.2 INTRODUCTION</b></p> <p>USAID requires all grantees, regardless of the country or legal entity, to comply with the terms and conditions included in the cooperative agreement, attached provisions and referenced procurement regulations. In general, such compliance cannot be waived by a Mission or by AID/Washington.</p> <p>Steps performed in this audit to test compliance with the agreement and related provisions included:</p> <ul style="list-style-type: none"><li>- a review of cooperative agreement provisions and related regulations to identify those provisions and regulations which could have a material affect on the financial statements</li></ul>		

<u>Auditors's Report</u>	<u>SNIP's comments</u>	<u>ICRISAT Center's comments</u>
<p>- audit procedures including detailed testing to evaluate ICRISAT's compliance with these provisions and regulations.</p> <p><b>4.3 FINDINGS AND RECOMMENDATIONS</b></p> <p>4.3.1 The ICRISAT Matopos accounting system is not capable of properly accounting for the types, complexity and volume of transactions</p> <p>Mandatory Standard Provisions for US Non-Governmental Grantees, No. 2, states "The grantee shall maintain books, records, documents ... to sufficiently substantiate changes to the grant." ICRISAT uses LOTUS 1-2-3 spreadsheets and some manual books and records to track project financial activity. However, the scope and complexity of the financial transactions overwhelm the capacity of the system and financial staff. Without an integrated accounting system, the Matopos staff cannot cope with multi-currency, donor specific expense identifications leading to financial misstatements.</p> <p><b>RECOMMENDATIONS 12</b></p> <p>ICRISAT should implement an integrated accounting system which can account for multiple currencies multiple projects and donor specific reporting.</p>	<p>4.3.1 We believe this statement to be untrue and do not understand on what basis the statement has been made. Please see our further comments under sections 1.4, 3.1 and 3.3.1. The statement implies that ICRISAT's use of Lotus 1-2-3 is part of the alleged problem. In fact, unreconciled invoices were five in number and took place between December 1988 and July 1990. Since introduction of computerization and use of Lotus 1-2-3 in early 1991 in conjunction with a new Administrator and new Accounts Officer, improper invoicing is not an existing or continuing problem. We have been able to remedy the weakness so as to make the statement currently invalid. ICRISAT is fully capable of properly accounting for the types, complexity and volume of transactions taking place. Nevertheless, ICRISAT is reviewing the area of computerized accounting system for multicurrencies in order to further improve efficiency. A suitable commercial or customized software package would put ICRISAT at an even greater advantage.</p>	<p>We agree with the explanation offered.</p> <p>We agree. No further comments, other than, as previously indicated, the present accounting system, Lotus 1-2-3, will be reviewed in near future, and changed if necessary.</p>

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<p>This system could be manual, or a commercial accounting software package.</p> <p><b>DISCUSSION</b></p> <p>ICRISAT staff agree that their current system is not ideal. They looked into setting up a commercial package but ran into some problems. They have agreed to revisit the issue.</p> <p>4.3.2 ICRISAT is not submitting financial and technical reports Attachment C to the grant agreement requires that ICRISAT provide USAID/Zimbabwe with quarterly financial status reports and semi-annual technical progress reports. These reports have not been submitted to USAID. ICRISAT officials said they were not aware that USAID/Zimbabwe officials were not satisfied with the financial information provided. Without regular financial and technical progress reports, USAID/Zimbabwe officials cannot properly monitor the project.</p> <p><b>RECOMMENDATION 13</b></p> <p>ICRISAT should prepare and submit financial and technical progress reports as required in the grant agreement.</p> <p><b>DISCUSSION</b></p> <p>ICRISAT staff have agreed to begin submitting the reports as required. They stated that USAID never provided them with the reporting</p>	<p>A suitable commercial or customized software package would put ICRISAT at an even greater advantage. We believe it is very important to note that deficiencies existing in the first years of the audit period had been corrected and not repeated in the last year and a half of the audit period.</p> <p>4.3.2 Please see our comments on section 1.4, paragraph 4.</p>	<p>Please see 1.4.</p>

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4.3.3 Utilization of USAID funds for other donor project activities

ICRISAT project officials have transferred funds between the USAID, CIDA and GTZ accounts to pay for project activities. They transferred funds on a temporary basis to cover for delays in receipts from the various donors. USAID Mandatory Standard Provisions for Non-US Governmental grantees require that recipients maintain separate accounts for USAID funds and only utilize those funds for AID supported project activities. Utilization of AID funds for non- AID related activities, in conjunction with the weak accounting system noted in finding 4.3.1, may result in USAID funds supporting extra-project activities.

**RECOMMENDATION 14**

ICRISAT should zero out the balances due to, and from, the various donors and maintain strict segregation of funds in the future.

**DISCUSSION**

ICRISAT officials explained that the transfers between grantor funds is only on a temporary basis and is necessary due to the occasional delays in receipt of funds from donors. They stated that the flow of funds was well controlled and not prejudicial to any one donor. They agreed that, in a perfect world, where invoices were submitted or paid on time, the transfer of funds would not be necessary. We suggested

SHIP's comments

4.3.3 Please see our comments on section 1.4, paragraph 4. In addition, we object to the suggestion that ICRISAT core funds should make up any shortfalls in individual donor payments. Instead, we believe that, since the flow of funds is well controlled and not prejudicial to any one donor, the arrangement used in the past should be maintained. We reiterate that strict segregation of funds has always taken place at all times and that zeroing out of balances due to, and from the various donors has always taken place as well.

ICRISAT Center's comments

No comments.

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<u>Auditors Report</u>	<u>SNIP's comments</u>	<u>ICRISAT Center's comments</u>
<p>that the project temporarily borrow ICRISAT Core funds to make up any shortfalls in individual donor-payments. We note that the balance between USAID and CIDA has been cleared.</p> <p>5. OTHER MATTERS</p> <p>5.1 FINDINGS</p> <p>Certain additional steps were requested by AID/Zimbabwe in our scope of work. The following findings and observations address the issues that are not covered elsewhere in the report.</p> <p>5.1.1 Financing of ineligible costs with USAID funds</p> <p>In our audit test and reviews, other than where identified in the findings in the previous sections, we noted no instances where ICRISAT officials utilized USAID funds for activities inconsistent with project goals or allowable USAID regulations.</p>		

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<p data-bbox="98 203 644 399">5.1.2 Home office or -Bulawayo office costs that appear extraordinarily high; and, the high utilization of grant funds that will only cover expenditure planned through October 1992 instead of the project completion date of September 1993</p> <p data-bbox="98 462 644 917">The explanations for the two matters noted above are related and best discussed together. In our audit tests we noted that almost all of the project vehicles were purchased using funds from the USAID grant. However, some of the vehicles are actually used by staff working on CIDA and GTZ related components of the project. (Note: there are no donor restrictions as to how vehicles should be used). We also noted that several employees such as Personnel/Accounts Officer, Purchasing Clerk, Storeman and secretaries were identified as providing services to all three donors, but were wholly paid from USAID grant funds.</p> <p data-bbox="98 948 644 1301">On discussing this situation with ICRISAT officials, we noted that it was not equitable for USAID to pay for a disproportionate share of vehicle and salary costs. ICRISAT officials agreed with our observations and agreed to reallocate some of the vehicles and employee costs to CIDA and GTZ related sub-programs. This reallocation should reduce the level of operating costs paid by USAID over the remaining project life and ensure project completion with the remaining funds.</p>	<p data-bbox="681 203 1233 305">5.1.2 Reallocation of costs as suggested has already taken place. Please see our comments on section 1.4, paragraph 5.</p>	<p data-bbox="1271 203 1408 235">No comments.</p>

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**APPENDIX 2**

**USAID/ZIMBABWE COMMENTS**

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(Name and Office)

FROM: FAX NO. 263-4-722418  
Ashleigh J. Appel, Secretary to the Controller  
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