

PD-ABF-518

ISN 81426

Regional Inspector General for Audit
Tegucigalpa, Honduras

**Audit of
USAID/Haiti's Project Activities
Managed by the Organization
for Rehabilitation of the Environment
July 1, 1989 to March 31, 1992**

**Audit Report No. 1-521-93-14-N
February 22, 1993**



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

AGENCY FOR INTERNATIONAL DEVELOPMENT

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February 22, 1993

MEMORANDUM

TO: D/USAID/Haiti, David A. Cohen

FROM: RIG/A/T, Lou Mundy *Lou Mundy*

SUBJECT: Audit of USAID/Haiti's Project Activities, Managed by the Organization for Rehabilitation of the Environment, July 1, 1989 to March 31, 1992

This report presents the results of a financial audit of two USAID/Haiti projects--the Technical Consultants and Training Project (Project No. 521-0167) for the period December 11, 1989 to December 31 1991 and the Targeted Watershed Management Project (Project No. 521-0191) for the period July 1, 1989 to March 31, 1992--managed by the Organization for Rehabilitation of the Environment (Organization). The audit firm of Deloitte & Touche prepared the report dated January 29, 1993.

The purpose of the Technical Consultants and Training Project was to increase off-season mango production through diversification of varieties. This Project was completed December 31, 1991. The purpose of the Targeted Watershed Management Project was to establish soil-conserving and watershed regenerating technical interventions in targeted watersheds in the southwestern Peninsula of Haiti. This Project was completed September 30, 1992. During the period audited the Organization received A.I.D. funds totaling \$2.1 million under the two Project Agreements.

The objectives of the audit were to determine whether: (1) the Organization's fund accountability statements present fairly, in all material respects, the financial position of the Projects for the period audited, (2) the Organization's internal control structure was adequate to manage the Projects' operations, and (3) the Organization had complied with the terms of the Projects' agreements and applicable laws and regulations. The scope of the audit included an examination of the Organization's activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

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Deloitte & Touche concluded that, except for questionable costs of \$137,654, the fund accountability statements present fairly, in all material respects, the Projects' financial activities for the period audited. Questionable costs related primarily to: (1) salaries and fringe benefits paid to local employees in U.S. dollars and in excess of budgetary levels approved by USAID/Haiti (\$90,343); (2) salaries, fringe benefits, and other expenses of an individual based in the U.S. and overseeing the Organization's U.S. banking and purchasing operations (\$36,446); and (3) expenditures which were charged to both Projects (\$10,075).

Regarding the Organization's internal control structure, the auditors identified two reportable conditions that they considered nonmaterial in relation to the fund accountability statements. The condition described by Deloitte & Touche which allowed expenditures to be charged to both Projects is a significant deficiency in the Organization's internal control structure.

With respect to the Organization's compliance with agreements terms and applicable laws and regulations, the auditors identified four material instances of noncompliance related to: (1) salaries paid in U.S. dollars to local employees, (2) salary revaluations with no authorization from USAID/Haiti, (3) fringe benefits paid for local employees, and (4) remuneration of an individual based in the U.S. with no authorization from USAID/Haiti.

Although both of these Projects have terminated, USAID/Haiti officials informed RIG/A/T that a new agreement was executed with the Organization in September 1992 to implement the Seed Project Production Project (USAID/Haiti Project No. 521-0245). USAID/Haiti has obligated \$1.4 million for this Project but, to date had not yet disbursed funds to the Organization. **Because of the serious nature of the problems disclosed by Deloitte & Touche in the Organization's management of these two projects we strongly suggest that USAID/Haiti obtain assurance that these problems concerning the weaknesses in the Organization's internal control structure and noncompliance with Agreement terms have been corrected before disbursing funds under the Seed Project Production Project.**

We are including the following recommendation in the Office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/Haiti resolve the questionable costs of \$137,654 (\$99,539 questioned and \$38,115 unsupported) identified in the Deloitte & Touche report dated January 29, 1993, and recover

from the Organization for the Rehabilitation of the Environment the amounts determined to be unallowable.

Recommendation No. 1 will be considered resolved upon the Mission's determination of the amount of recovery, and will be considered closed upon the recovery of funds, offset of funds, or issuance of a Bill for Collection.

The report was discussed with representatives from the Organization who expressed general disagreement with the report's findings and costs identified as questionable. The Organization's written comments are included in the report as a part of each finding.

This final audit report is being transmitted to you for your action. Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

**Regional Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of
USAID/Haiti's Project Activities
Managed by the Organization
for Rehabilitation of the Environment
July 1, 1989 to March 31, 1992**

**Audit Report No. 1-521-93-14-N
February 22, 1993**



AUDIT OF THE TARGETED WATERSHED MANAGEMENT PROJECT AND THE
TECHNICAL CONSULTANTS AND TRAINING PROJECT
USAID/HAITI PROJECT N^{OS} 521-0191 AND 521-0167
MANAGED BY THE ORGANIZATION FOR REHABILITATION OF THE
ENVIRONMENT
AS OF MARCH 31, 1992



**AUDIT OF THE TARGETED WATERSHED MANAGEMENT PROJECT AND THE
TECHNICAL CONSULTANTS AND TRAINING PROJECT
USAID/HAITI PROJECT N^{OS} 521-0191 AND 521-0167
MANAGED BY THE ORGANIZATION FOR REHABILITATION OF THE
ENVIRONMENT
AS OF MARCH 31, 1992**

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Deloitte & Touche



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January 29, 1993

Mr. Lou Mundy
Regional Inspector General for Audit
U.S. Agency for International Development
Tegucigalpa, Honduras, C.A.

Dear Mr. Mundy:

This report presents the results of our financial audit of the Targeted Watershed Management Project and the Technical Consultants and Training Project, USAID/Haiti Projects N° 521-0191 and 521-0167, managed by the Organization for the Rehabilitation of the Environment as of March 31, 1992.

BACKGROUND

On March 31, 1988, the U.S. Agency for International Development to Haiti (USAID/Haiti), approved the Targeted Watershed Management Project, USAID/Haiti project N° 521-0191, which provided US\$2,804,894 in grant funds under grant agreement N° 521-0191-00-A-00-8010-00 to the Organization for Rehabilitation of the Environment (ORE) to establish soil-conserving and watershed regenerating technical interventions in targeted watersheds in the southwestern peninsula of Haiti. ORE has provided materials and technical assistance to upland peasant farmers so that they can increase the productive potential of their hillside farms and increase on farm income, while at the same time contributing to the stabilization and improvement of the targeted watersheds. The Project Assistance Completion Date (PACD) was estimated to be September 30, 1992.

On December 11, 1989, the U.S. Agency for International Development Mission to Haiti (USAID/Haiti) approved the Technical Consultants and Training Project, USAID/Haiti project N° 521-0167, which provided US\$528,103 in grant funds under the grant N° 521-0167-G-00-0005-00 to the Organization for Rehabilitation of the Environment (ORE) for the purpose of increasing off-season mango production through diversification of varieties by grafting techniques and by producing grafted trees in nurseries to be planted in the seasonally strategic regions. The Project Assistance Completion Date (PACD) was estimated to be December 31, 1991.

Those USAID/Haiti grants include the following budget categories and amounts in US dollars:

	<u>Project 521-0191</u>	<u>Project 521-0167</u>
Personnel and benefits	\$ 1,664,395	\$ 292,897
Travel and per diem	92,669	48,304
Equipment	147,992	41,826
Commodities and supplies	311,681	59,214
Operating expenses	570,036	77,862
Evaluation and audit	<u>18,121</u>	<u>8,000</u>
	<u>\$ 2,804,894</u>	<u>\$ 528,103</u>

The total funds disbursed by USAID/Haiti to ORE during the period of April 1, 1988 to March 31, 1992, under these projects were US\$3,055,189 as follows:

Project 521-0191	\$ <u>2,593,406</u>
Project 521-0167	\$ <u>461,783</u>

AUDIT OBJECTIVES AND SCOPE

The audit objectives were to determine whether:

- The fund accountability statements for the projects' activities managed by ORE from July 1, 1989 to March 31, 1992 present fairly, in all material respects, the financial activities of the projects, and costs reported as incurred and reimbursed by USAID/Haiti during the period are allowable, allocable, and reasonable in accordance with the terms of the agreements, and applicable laws and regulations.

- The internal control structure of ORE, including its control environment, accounting system and control procedures, is adequate to manage the projects' operations.

- ORE complied with the terms of the agreements and applicable laws and regulations which may affect the projects' goals and incurred costs.

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

Receipts

- 1) Obtain confirmation from USAID/Haiti regarding the total contributions made to ORE during the period.

- 2) Reconcile the grant funds recorded by ORE with those confirmed as disbursed by USAID/Haiti.

- 3) Obtain and review the bank reconciliations at March 31, 1992 for project 521-0191 and at December 31, 1991 for project 521-0167 and the procedures used to control the funds and bank accounts.



Disbursements

- 1) Evaluate ORE'S internal control procedures over disbursements.
- 2) Evaluate the procurement system to determine if the materials and supplies were purchased and the services obtained in accordance with government procurement regulations and sound commercial practices.
- 3) Determine whether ORE has established policies for planning and evaluating projects' activities and accomplishments.
- 4) On a selective basis, test ORE'S controls over disbursements ensuring that the expenditures have been properly approved.
- 5) Determine whether costs incurred in carrying out the purposes of the projects were allowable, allocable and reasonable in accordance with the agreements.
- 6) Identify any costs not considered appropriate for reimbursement under the agreements.

Payroll

- 1) Review and evaluate ORE'S payroll preparation and distribution procedures.
- 2) Select employees from various payroll registers and test for authorization of employment, wage rate, net pay, and the distribution of the total payroll amounts in the appropriate accounts and department classification in monthly financial reports.
- 3) Determine whether payroll deductions are in accordance with applicable local regulations and the agreements.



General

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

During our work we were alert to situations or transactions that could be indicative of fraud, abuse and illegal acts.

Our examination also included other auditing procedures we considered necessary to determine if funds received by ORE were properly used and accounted for as directed by the agreements, other projects documents, and the laws of Haiti.

AUDIT RESULTS**Fund Accountability Statements**

We identified certain questionable costs amounting to US\$81,789 and unsupported costs amounting to US\$26,576 for project N° 521-0191. For project N° 521-0167 we identified questionable costs amounting to US\$17,750 and unsupported costs of US\$11,539.

In our opinion, except for the questionable costs mentioned in the preceding paragraph, the fund accountability statements present fairly, in all material respects, the USAID/Haiti Project N° 521-0191 and 521-0167 activities managed by the Organization for the Rehabilitation of the Environment for the period July 1, 1989 to March 31, 1992.

Internal Control Structure

For the period July 1, 1989 to March 31, 1992 we obtained an understanding of the design of relevant policies and procedures and whether they were in operation or not. Our study and evaluation of ORE internal control structure related to projects activities showed that the policies and procedures were operational and valid for the period except for the two reportable conditions which we do not consider to be material weaknesses.

The reportable conditions include inter-project transactions and accounting system, and unsupported expenditures. These findings are fully explained in the pertinent sections of this report. These findings resulted in our audit approach being modified to expand substantive audit tests, thereby placing very little reliance on the internal control structure.

Compliance with the Terms of the Agreements and Applicable Laws and Regulations

ORE has complied with applicable laws, regulations and the terms of the agreements except for the material instances of noncompliance which include payment of salaries in US dollars for local personnel, unreasonable salary increase, unreasonable employee benefits and unnecessary expenses for the US trustee, which were considered questionable costs in the report; as described in the pertinent sections of this report.

Management Comments

Management comments are reproduced after each audit finding in this report. Management generally agreed with the recommendations, except the ones related to payments in United States dollars.



Deloitte & Touche
Chartered Accountants

AUDIT OF THE TARGETED WATERSHED MANAGEMENT PROJECT AND THE
TECHNICAL CONSULTANTS AND TRAINING PROJECT
USAID/HAITI PROJECT N^{OS} 521-0191 AND 521-0167
MANAGED BY THE ORGANIZATION FOR REHABILITATION OF THE
ENVIRONMENT
FUND ACCOUNTABILITY STATEMENTS
For the period
July 1, 1989 to March 31, 1992

September 21, 1992
Independent Auditors' Report

We performed a financial audit of the accompanying fund accountability statements of USAID/Haiti Projects N° 521-0191 and 521-0167 managed by the Organization for the Rehabilitation of the Environment (ORE), for the period July 1, 1989 to March 31, 1992. We performed a financial audit of the fund accountability statement of USAID/Haiti Projects N° 521-0191, for the period ended June 30, 1989 and we have issued an independent Auditor's report as of February 1st 1990. The fund accountability statements are the responsibility of ORE management. Our responsibility is to express an opinion on the fund accountability statements based on our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and the "Government Auditing Standards" issued by the Comptroller General of the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the fund accountability statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statements. Our audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall fund accountability statements presentation. We believe that our audit 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 non such quality review program is offered by professional organizations in Canada. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participant in the Canadian Institute of Chartered Accountants (CICA) national internal quality control program, which requires all offices to be subjected, every four years, to an extensive quality control review performed by independent chartered accountants chosen by CICA.

As described in note 2, these fund accountability statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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We identified certain questionable costs amounting to US\$81,789 and unsupported costs amounting to US\$26,576 for project N° 521-0191. For project N° 521-0167 we identified questionable costs amounting to US\$17,750 and unsupported costs of US\$11,539.

In our opinion, except for the questionable costs mentioned in the preceding paragraph, the fund accountability statements present fairly, in all material respects, the receipt and disbursement of funds provided under USAID/Haiti Projects N° 521-0191 and 521-0167 for the period of July 1, 1989 to March 31, 1992 in accordance with the basis of accounting described in note 2.

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

Deloitte & Touche

Deloitte & Touche
Chartered Accountants

AUDIT OF THE TARGETED WATERSHED MANAGEMENT PROJECT AND THE
 TECHNICAL CONSULTANTS AND TRAINING PROJECT
 USAID/HAITI PROJECT NOS 521-0191 AND 521-0167
 MANAGED BY THE ORGANIZATION FOR REHABILITATION OF THE
 ENVIRONMENT
 FUND ACCOUNTABILITY STATEMENT
 For the period
 July 1, 1989 to March 31, 1992
 (Expressed in US\$)

	<u>BUDGETED</u>	<u>ACTUAL</u>		<u>TOTAL</u>	<u>QUESTIONABLE COSTS</u>	
		<u>AUDITED JUNE 30 1 9 8 9</u>	<u>JULY 1, 1989 TO MARCH 31 1 9 9 2</u>		<u>QUESTIONED</u>	<u>UNSUPPORTED</u>
RECEIPTS						
USAID/HAITI						
Contributions	\$ 804,894	\$ 929,392	\$ 1,664,014	\$ 2,593,406		
Sales	-	4,901	3,049	7,950		
	<u>2,804,894</u>	<u>934,293</u>	<u>1,667,063</u>	<u>2,601,356</u>		
EXPENDITURES						
Project personnel	1,664,395	488,295	1,044,493	1,532,788	76,343	26,150
Travel and per diem	92,669	36,470	55,600	92,070	-	-
Equipment	147,992	103,34	38,790	142,139	-	-
Commodities and supplies	311,681	130,051	160,490	290,541	-	426
Operating expenses	570,036	128,936	398,811	527,747	5,446	-
Evaluation and audit	18,121	6,000	2,121	8,121	-	-
	<u>2,804,894</u>	<u>893,101</u>	<u>1,700,305</u>	<u>2,593,406</u>	<u>\$ 81,789</u>	<u>\$ 26,576</u>
EXCESS OF RECEIPTS OVER						
EXPENDITURES	\$ -	\$ 41,192	\$ (33,242)	\$ 7,950		

AUDIT OF THE TARGETED WATERSHED MANAGEMENT PROJECT AND THE
 TECHNICAL CONSULTANTS AND TRAINING PROJECT
 USAID/HAITI PROJECT N^{OS} 521-0191 AND 521-0167
 MANAGED BY THE ORGANIZATION FOR REHABILITATION OF THE
 ENVIRONMENT
 FUND ACCOUNTABILITY STATEMENT
 For the period
 December 11, 1989 to December 31, 1991
 (Expressed in US\$)

	<u>BUDGETED</u>	<u>ACTUAL</u>	<u>QUESTIONABLE COSTS</u>	
			<u>QUESTIONED</u>	<u>UNSUPPORTED</u>
RECEIPTS				
USAID/HAITI				
Contributions	\$ 528,103	\$ 461,783		
	<u>528,103</u>	<u>461,783</u>		
EXPENDITURES				
Project personnel	292,897	243,868	17,750	7,595
Travel and per diem	48,304	38,743	-	1,802
Equipment	41,826	45,149	-	-
Commodities and supplies	59,214	50,084	-	-
Operating expenses	77,862	83,939	-	2,142
Evaluation and audit	8,000	-	-	-
	<u>528,103</u>	<u>461,783</u>	<u>\$ 17,750</u>	<u>\$ 11,539</u>
EXCESS OF RECEIPTS OVER				
EXPENDITURES	\$ -	\$ -		
	<u>-</u>	<u>-</u>		

**AUDIT OF THE TARGETED WATERSHED MANAGEMENT PROJECT AND THE
TECHNICAL CONSULTANTS AND TRAINING PROJECT
USAID/HAITI PROJECT N^{OS} 521-0191 AND 521-0167
MANAGED BY THE ORGANIZATION FOR REHABILITATION OF THE
ENVIRONMENT
NOTES TO FUND ACCOUNTABILITY STATEMENTS
For the period
July 1, 1989 to March 31, 1992**

1. NATURE OF ACTIVITIES

On March 31, 1988, the U.S. Agency for International Development to Haiti (USAID/Haiti), approved the Targeted Watershed Management Project, USAID/Haiti project N° 521-0191, which provided US\$2,804,894 in grant funds under grant agreement N° 521-0191-00-A-00-8010-00 to the Organization for Rehabilitation of the Environment (ORE) to establish soil-conserving and watershed regenerating technical interventions in targeted watersheds in the southwestern peninsula of Haiti. ORE has provided materials and technical assistance to upland peasant farmers so that they can increase the productive potential of their hillside farms and increase on farm-income, while at the same time contributing to the stabilization and improvement of the targeted watersheds. The Project Assistance Completion Date (PACD) was estimated to be September 30, 1992.

On December 11, 1989, the U.S. Agency for International Development Mission to Haiti (USAID/Haiti) approved the Technical Consultants and Training Project, USAID/Haiti project N° 521-0167, which provided US\$528,103 in grant funds under the grant N° 521-0167-G-00-0005-00 to the Organization for Rehabilitation of the Environment (ORE) for the purpose of increasing off-season mango production through diversification of varieties by grafting techniques and by producing grafted trees in nurseries to be planted in the seasonally strategic regions. The Project Assistance Completion Date (PACD) was estimated by December 31, 1991.

2. ACCOUNTING POLICY

The fund accountability statements has been prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles. Consequently, income is recognized when received rather than when earned and expenditures are recognized when paid rather than when the obligations are incurred.

3. FOREIGN EXCHANGE

These fund accountability statements have been translated to US dollars at the average exchange rate for the period of AID disbursements which is 7.044 haitian gourdes for US1\$ for project N° 521-0191 and 7.49 haitian gourdes for US1\$ for project N° 521-0167. This translation method resulted in no foreign exchange gain or loss being included in the fund accountability statements.

AUDIT OF THE TARGETED WATERSHED MANAGEMENT PROJECT AND THE
 TECHNICAL CONSULTANTS AND TRAINING PROJECT
 USAID/HAITI PROJECT N^{OS} 521-0191 AND 521-0167
 MANAGED BY THE ORGANIZATION FOR REHABILITATION OF THE
 ENVIRONMENT
 NOTES TO FUND ACCOUNTABILITY STATEMENTS
 For the period
 July 1, 1989 to March 31, 1992

4. QUESTIONABLE COSTS

According to A.I.D. applicable regulations, costs charged to the projects must meet the following general criteria:

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

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

The following project costs incurred by the Organization for the Rehabilitation of the Environment are determined to be questionable (unsupported and questioned) costs because they do not conform with the above-mentioned criteria.

Project N° 521-0191:

	<u>Cost</u>	<u>Questionable Cost</u>
- Salary paid in US currency to Mrs Finnigan who is a haitian citizen	\$ 66,150	\$ 10,036
- Salary revaluation of Mrs Finnigan	15,750	15,750
- Employee benefits for Mr and Mrs Finnigan		
Social and security	\$ 13,627	
Medical insurance	10,985	
Life insurance	16,433	
Child education	<u>9,300</u>	
	50,345	50,345
- Salaries and expenditures for US based trustee	28,846	28,846
- Expenditures charged twice to the project	2,598	2,598
- Expenditures which are unsupported	<u>790</u>	<u>790</u>
	<u>\$ 164,479</u>	<u>\$ 108,365</u>



**AUDIT OF THE TARGETED WATERSHED MANAGEMENT PROJECT AND THE
 TECHNICAL CONSULTANTS AND TRAINING PROJECT
 USAID/HAITI PROJECT N^{OS} 521-0191 AND 521-0167
 MANAGED BY THE ORGANIZATION FOR REHABILITATION OF THE
 ENVIRONMENT
 NOTES TO FUND ACCOUNTABILITY STATEMENTS
 For the period
 July 1, 1989 to March 31, 1992**

4. QUESTIONABLE COSTS (Cont'd)

Project N° 521-0167:

- Salary paid in US currency to Mrs Finnigan who is a Haitian citizen	\$ 9,900	\$ 3,345
- Salary revaluation for Mrs Finnigan	4,250	4,250
- Employee benefits for Mr and Mrs Finnigan		
Social and security	\$ 1,236	
Medical insurance	706	
Life insurance	2,815	
Child education	<u>1,860</u>	6,617
	6,617	6,617
- Salaries and expenditures for US based trustee	7,600	7,600
- Expenditures charged to both projects	<u>7,477</u>	<u>7,477</u>
	<u>\$ 35,844</u>	<u>\$ 29,289</u>

AUDIT OF THE TARGETED WATERSHED MANAGEMENT PROJECT AND THE
TECHNICAL CONSULTANTS AND TRAINING PROJECT
USAID/HAITI PROJECT N^{OS} 521-0191 AND 521-0167
MANAGED BY THE ORGANIZATION FOR REHABILITATION OF THE
ENVIRONMENT
INTERNAL CONTROL STRUCTURE
For the period
July 1, 1989 to March 31, 1992

September 21, 1992
Independent Auditors' Report

We audited the fund accountability statements of the USAID/Haiti Projects N^{OS} 521-0191 and 521-0167 managed by the Organization for the Rehabilitation of the Environment for the period July 1, 1989 to March 31, 1992, and have issued our report dated September 21, 1992 in which we issued a qualified opinion based on our work.

Except for not conducting an external quality control review by an unaffiliated audit organization as described further in our opinion on the fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and the "Government Auditing Standards" issued by the Comptroller General of the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the fund accountability statements are free of material misstatement.

In planning and performing our audit of the fund accountability statements for the period July 1, 1989 to March 31, 1992 we examined ORE's internal control structure related to projects operations, in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statements and not to provide assurance on the internal control structure of ORE taken as a whole.

The management of ORE is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objective of an internal control structure is 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 statements with the basis of accounting described in note 2. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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

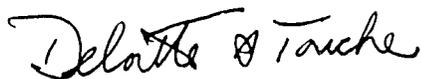
We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant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

The reportable conditions are described in Findings numbers 1 to 2 on the following pages of this report. These findings resulted in our audit approach being modified to expand substantive audit tests, thereby placing very little reliance on the internal control structure.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the fund accountability statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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



Deloitte & Touche
Chartered Accountants

AUDIT FINDINGS**1. Inter-Project Transactions and accounting system****Conditions**

- Common expenditures for both projects were sometimes paid by one project and the expenditures were shared between the projects.
- Inter project journal entries were made in the accounting records of both projects.
- The accounting records are maintained on a database system which is more flexible than a conventional packaged accounting software.

Criteria

- The grantee must maintain separate accounting records for each project it manages.
- The grantee must use a separate bank account for each project and project expenditures must be charged to that account.
- The grantee must maintain adequate records to support all expenditures charged to the project.

Cause

- Some expenditures like salaries and seed purchases were common to both projects. Only one check was made for the global amount and an inter-project journal entry was made in the other project.
- In such accounting system, it is more difficult to retrace a full transaction cycle, therefore errors may occur and go undetected.

Effect

- Our tests revealed errors in the inter-project journal entries which resulted in expenditures being charged to both projects. Therefore A.I.D. reimbursed the same expenditure twice. These amounts were questioned in the fund accountability statement as follows: Project 521-0191 for US\$ 2,598 and project 521-0167 for US\$ 7,477.

Recommendation

- We recommend to ORE, that all expenditures or shared expenditures be paid with checks from each project or at least a check should be made from one project to the other instead of a journal entry. This would reduce the risk of errors and eliminate the possibility of charging an expenditure twice.
- A conventional accounting software which is less flexible for data entry and which allows transaction cycle to be retraced more easily, should be used to record the transactions of the project. This would reduce the risk of errors occurring and not be detected.

AUDIT OF THE TARGETED WATERSHED MANAGEMENT PROJECT AND THE
TECHNICAL CONSULTANTS AND TRAINING PROJECT
USAID/HAITI PROJECT N^{OS} 521-0191 AND 521-0167
MANAGED BY THE ORGANIZATION FOR REHABILITATION OF THE
ENVIRONMENT
COMPLIANCE WITH THE TERMS OF THE AGREEMENTS
AND APPLICABLE LAWS AND REGULATIONS
For the period
July 1, 1989 to March 31, 1992

September 21, 1992
Independent Auditors' Report

We have audited the fund accountability statements of the USAID Haiti Project N^o 521-0191 and 521-0167 managed by the Organization for the Rehabilitation of the Environment for the period July 1, 1989 to March 31, 1992 and issued our report thereon dated September 21, 1992 in which we issued a qualified opinion based on our work.

Except for not conducting an external quality control review by an unaffiliated audit organization as described further in our opinion on the fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and the "Government Auditing Standards" issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants, applicable to ORE, is the responsibility of ORE's management. In obtaining reasonable assurance about whether the fund accountability statements are free of material misstatement, we performed tests of ORE's compliance with certain provisions of laws, regulations and terms of the agreements. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in 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 statements. The results of our tests of compliance disclosed the material instances of noncompliance in findings 1 to 4, the effects of which have not been corrected in ORE's fund accountability statements.

We considered these material instances of noncompliance in forming our opinion on whether ORE's fund accountability statements are presented fairly, in all material respects, in conformity with the basis of accounting described in note 2, and this report affects our report dated September 21, 1992 on those fund accountability statements.

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

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



Deloitte & Touche
Chartered Accountants

AUDIT FINDINGS**1. Salaries paid in US currency****Condition**

- Mrs Finnigan who is a Haitian citizen and a British citizen was paid in US currency.

Criteria

- According to USAID's representative, AID handbook 13 provisions for local cost financing, OMB circular A-122 "Cost Principles for Non Profit Organisations" and per cooperative agreement, to qualify as local cost of a project, personal services must be paid in local currency.

Causes

- As per a letter to C. McIntyre on February 2, 1988, in the course of negotiation, Mr C. Paskett of ARD, reports that:

"Proposed salaries for S. Finnigan and M. Finnigan represent significant increase over their salary histories, but the increased scope and budget of this project, and the concomitant increase in their responsibilities do seem to warrant the salaries proposed".

"Budget line 1 (salaries and Related) includes proposed salaries and fringe benefits for both expatriate, and national staff. ... fringe benefits for expatriate staff was calculated by Mr Finnigan at 25% of the salary and is said to include medical/dental/life insurance and retirement plan. Mr Finnigan has indicated that "details of these policies will be supplied at a later date". Until such details are provided to justify the payment of fringe benefits at 25%, PST/ARD can accord only provisional approval".

- A letter signed by Catherine McIntyre, Project Manager on March 30, 1988, states that:

"Pursuant to attachment I schedule E of the subject cooperative agreement and materials submitted to me by ARD/PST as designated grant manager, it hereby certify that you have fulfilled all conditions precedent for receiving funds from AID".

- ORE negotiated and submitted to USAID through ARD (the designated grant manager) several budgets which showed that their salaries were to be paid in US funds and were distinguishable from the other expenditures which were to be paid in local funds. ORE believed that these budgets gave them authorization to pay salaries in US funds. Management was unaware that they were considered local hires by USAID.

Effect

- The amount of US\$10,036 for project 521-0191 and US\$3,345 for project 521-0167 have been questioned in the fund accountability statements.

Recommendation

- We recommend to ORE to obtain the authorization from AID to pay salaries in US funds.

Management comments

- The auditor's criteria for this finding are "According to USAID's representative, AID Handbook 13 provisions for local cost financing, OMB circular A-122 "Cost Principles for Non Profit Organizations" and per cooperative agreement, to qualify as local cost of a project, personal services must be paid in local currency."
- Neither the AID Handbook 13, OMB circular A-122 "Cost Principles for Non Profit Organizations", nor the cooperative agreement make any reference to the currency in which an employee, Haitian or otherwise, may be paid.

AID Handbook 13

- AID Handbook 13 provision for Local Cost Financing (May 1986) 4D-31 cited by the auditors does not refer to "personal services". It states in para (a) "Costs qualifying as local costs are eligible for financing under the grant in accordance with the terms of this standard provision. Local costs are defined as (1) indigenous goods, (2) imported shelf items, and (3) services provided by suppliers meeting the requirements contained in sub paragraph (b)... (b) To qualify as local costs, goods and services must also meet the following additional requirements: (1) They must be paid for in local currency. ..."
- This text refers to the eligibility to qualify as a local cost not those costs restricted as compulsory local costs. Secondly, it refers to "services by suppliers" not employees. A.I.D. ELIGIBILITY RULES FOR GOODS AND COMMODITIES, COMMODITY RELATED SERVICES, AND FOR SUPPLIERS OF GOODS AND SERVICES (OTHER THAN COMMODITY RELATED SERVICES) 1/, Attachment 4 to Amendment 2 of the Mango Project Grant N° 521-0167-G-SS-0005-00, states that: "The foregoing nationality provision for an individual supplying services does not apply to the employees or consultants of the Grantee or supplier..."

Management comments (cont'd)OMB Circular A-122

- Federal Register OMB Circular A-122, "Cost Principles for Non Profit Organizations" cited in both cooperative agreements makes no reference whatsoever to nationality in relation to salaries or personal services.
- Circular A-122 does however state on page 46022, Summary of Significant Changes: "Paragraph 4 of the basic Circular has been amended to make it clear that the absence of an agreement on any element of cost will not in itself affect the reasonableness of allocability of that element. Also, this paragraph was amended to make it clear that where an item of cost requiring prior approval is specified in the budget, approval of the budget constitutes approval of the cost." In 4.b. "Prior Approval" the Circular states "Prior Approval means securing the awarding agency's permission in advance to incur costs for those items that are designated as requiring prior approval by the Circular. Generally this permission will be in writing. Where an item of cost requiring prior approval is specified in the budget of an award, approval of the budget constitutes approval of the cost."

Citation of C/As and C/A budgets

- The PST C/A Financial Plan Attachment 1 states that "Revisions to this (financial) plan shall be made in accordance with the standard provision titles "Revision of Grant Budget". This provision in Handbook 13, App 4D states: "The approved grant budget is the financial expression of the grantee's program as approved during the grant award process".

Costs for salaries were made according to the approved Financial Plans and Budgets for both C/As:

PST C/A N° 521-0191-A-00-8010-00:

TABLE 1: FINANCIAL PLAN, states as follows:

BUDGET LINE	EXPENSE CATEGORY	YEAR ONE 1 April 1988 - 31 March 1989		
		US Dollars Req'd.	Gdes Req'd. Expressed US\$ @ 5:1	TOTAL US \$ REQUIRED
1	SALARIES & RELATED	\$142,100	\$315,570	\$457,670

Management comments (cont'd)**BUDGET PROJECTION BY CATEGORY, states as follows:**

<u>1. SALARIES</u>	<u>LOCAL \$</u>	<u>US \$</u>	<u>TOTAL \$</u>
ASSISTANT DIRECTOR M.F.	\$ 0.00	\$ 18,000.00	\$ 18,000.00
BENEFITS	\$ 0.00	\$ 4,500.00	\$ 4,500.00

Mango Project Grant N° 521-0167-G-SS-0005-00:**D. Financial Plan, states as follows:**

<u>CATEGORY</u>	<u>LOCAL EXPENSES</u>	<u>US\$ EXPENSES</u>	<u>TOTAL</u>
1. SALARIES	\$ 97,460.00	\$ 62,320.00	\$ 159,870.00

ILLUSTRATIVE NEGOTIATED BUDGET, states as follows:

(This is keyed into the detailed budget after negotiation.)

<u>1. SALARIES</u>	<u>LOCAL CURRENCY</u>	<u>US \$</u>	<u>TOTAL</u>
ACCOUNTING SUPERVISION	\$ 0.00	\$ 4,620.00	\$ 4,620.00

G. Procurement Plan, Personnel, states as follows:

- 'Ms Mousson Finnigan will allocate 25% of her time toward "accounting supervision" of the project.'
- The negotiated budgets in the original cooperative agreements and all subsequent amendments stated Mrs. Finnigan's position in US \$ salary. Mrs. Finnigan was identified as the Assistant Director for PST in ORE's PST Work Plan, section 17. Project Personnel, submitted for negotiation to ARD/AID on January 5th, 1988. The Work Plan Budget stated the Assistant Director M.F.'s salary in US \$ currency.
- Correspondence from the Project Officer also identified Mrs. Finnigan as the Assistant Project Director - (reference: C. McIntyre, ARDO/88/336, March 22, 1988).

Management comments (cont'd)

- Mrs. Finnigan's nationality has been on file at AID since May 1985. The "ORE Certification of Eligibility and Registration", (May 1985), states that Mrs. Finnigan's nationality is Haitian. This document, (which was not copied to ORE until Oct 92, and which ignores her British citizenship), demonstrates that USAID was aware of her nationality in 1988, and that this information was available to anyone consulting the USAID ORE C/A file.
- Mrs. Finnigan's salary and benefits were negotiated on the basis of a US (Florida) resident, (born Haitian holding a British citizenship since 1973). Qualification for expatriate employee status was defined in the ORE Procedures Manual (March 1988,) which states "ORE considers any employee that has legal residence status in any country other than Haiti an ex-pat." The manual was submitted to AID for review, as required under Conditions Precedent to Disbursement and Covenants - (reference: ARD memo to AID Project Officer March 21, 1988 - attachment 9. ORE Procedures Manual - Draft of March 1988).
- The PST Project Officer, Catherine McIntyre, the PST Project Officer, was informed by ORE on January 4th 1988 that Mr and Mrs. Finnigan were officially resident in the US. She approved the documentation and conditions precedent in USAID memos ARDO/88/335, March 22, 1988 and ARDO/88/365, March 30, 1988.
- Negotiation documents on file at AID discuss the US dollar salaries and fringe benefits which were approved in the final budget - reference: PST-ARD memo 097 to USAID, (2 Feb 88): and USAID CONT memo to ARDO (1, March 88).
- The memorandum of negotiation for the Mango project, signed by the Project Officer, Grants Officer and Controller specifically approves Mrs. Finnigan's salary "as presented and approved by the mission during the final review"; and the salary in the budget incorporated in the memorandum is stated in US dollars.
- The detailed budgets attached to the cooperative agreements state US currency salaries for Assistant Director (PST) and Accounting Supervision (Mango project), Mrs. Finnigan's identified positions. Her US \$ dollar salary has been approved in PST negotiations for seven budget amendments, most recently in June 1992, and in amendment 2 of the Mango Project. By approving negotiated budgets, USAID has given written and tacit approval of Mrs. Finnigan's US \$ salary from April 1988 to June 1992. At no time, during the negotiations or the life of the project, did USAID or their representatives inform ORE, either verbally or in writing, that Mrs. Finnigan's US \$ salary was questionable. ORE executed the project in good faith as per the negotiated budgets.

Management comments (cont'd)

- If the Handbook 13 section on Local Costs, is interpreted to preclude persons with Haitian nationality from receiving a US \$ salary, USAID is surely under an obligation to inform the grantee of this fact during the negotiation process, and to modify the Financial Plan to reflect this accordingly. As per Circular A-122, approval of the budget constitutes approval of the cost.

The Designated Grant Manager - Associates in Rural Development (ARD)

1. USAID's memo of negotiation (August 5, 1988) for the PST project states: "It was recognized, in the project paper phase, that the Haitian NGO's lacked the financial and administrative capacity to provide AID with required record keeping and accountability. An AID direct technical assistance contractor is providing assistance and training in the areas of administration and financial controls to the four NGO's in order to comply with AID requirements for prudent management and fiscal administration".
2. As per the C/A 521-0191-A-00-8010-00, "The designated grant manager will provide financial, administrative and technical assistance and oversight to ORE and its operations under Projet Sove Te. Each year the project will be incrementally funded, subject to the availability of funds, based on annual work plans and budgets submitted to ARD an approved by AID".
3. ORE negotiated the PST cooperative agreement through ARD, by submitting detailed budgets to ARD which were negotiated with AID an ARD. Disapproved expenses were removed or modified, according to the established procedure for negotiation of C/A financial plans. The C/A financial plan was finally approved based on the negotiated detailed budget in which US \$ salaries and benefits were clearly identified for Mrs. Finnigan's position.
4. ARD's memorandum of negotiation to USAID (2 February 1988) recommended approval of the Finnigan's salaries. The ARD PST Admin. Specialist's memorandum to the AID PST Project Officer (4 April 1988) cites the "Approved Financial Plan/Illustrative Budget". (The Illustrative Plan states M. Finnigan salary position in US dollars).
5. Salary currency and benefits for PST were also negotiated in detail with the Contract Officer and Controller's Office at a final negotiation meeting held at USAID on March 18, 1988, attended by: Richard Webber, EXO Grants Specialist; Cat McIntyre, Project Officer; Claire Johnson, Controller's Office; Sean Finnigan, Project Director, ORE; and Mrs. Monique Finnigan, Asst. Project Director, ORE; Steve Goodwin, Chief Accountant, ORE; Richard Hart, Financial Manager, ARD; James Gershin, Administrative Specialist, ARD.

Management comments (cont'd)The Designated Grant Manager - Associates in Rural Development (ARD)

6. The USAID Memo of Negotiation, R.F. Webber, August 5th 1988 to USAID File, states concerning C/A N° 521-0191-A-00-8010-00: "The budget as contained in the cooperative agreement is the result of a proposal from ORE in conjunction with the umbrella organizations technical assistance advisor firm (Associates in Rural Development). Budget revisions were made after a detailed review for project cost reasonableness, justification and allowability by USAID/H technical office and Controller". Both ORE's revised proposal and budget, on file at AID, and the Financial Plan and detailed budget attached to the C/A, stipulate Mrs. Finnigan's name as Assistant Director and her salary in US \$ currency.
7. The ARD PST Admin. Specialist's memorandum to the AID PST Project Officer (4 April 1988 - cc. Sean Finnigan - ORE) concerning ORE Vouchers #1 & #2 for local currency and US dollars requirements for the period 1 April thru 30 June 1988, which included Mrs. Finnigan's US salary, states: "These vouchers have been vetted by PST/ARD and they conform to ORE's approved Financial Plan/Illustrative Budget, as included in the Cooperative Agreement. Accordingly, I have signed off on the vouchers next to your signature block". The above memorandum, approving the expenses incorporated in the Financial Plan/Illustrative Budget, and the requested funds, clearly confirmed approval by ARD and USAID of the negotiated Financial Plan/Illustrative Budget, including the US salary expenses.

ARD Approval and Certification

- The original budget and workplan, and all subsequent budgets for amendments (2, 4, 5, 6 and 7), itemizing the Finnigan's salaries in US currency were submitted to ARD and approved by AID, as per the C/A. Similar budgets were submitted for amendments 9 & 11 and were negotiated directly with AID, ARD certified to AID every month during the entire period 1988 - 1991 that the ORE disbursements (which included US \$ salary payments for Mrs. Finnigan) were correct.

ORE Mango Project 521-0167-G-SS-0005-00:

- Mrs. Finnigan was named as the Accountant Supervisor in the Mango Project C/A 521-0167-G-SS-0005-00, and the salary was itemized in US \$ currency in budget, attachment 1.

The memorandum of negotiation for the Mango Project Grant 0521-0167-G-SS-0005-00, (John Horton - November 26, 1989), cleared by E. Kissinger, OPE, M. Napper, the Contract Officer and I. Nesterczuk, the Controller, conclusively identifies Mrs. Finnigan for Accounting Supervision and expresses the salary in US Dollars.

Management comments (cont'd)

The Memorandum of Negotiation states:

"ITEM-BY-ITEM NEGOTIATION OF THE DETAILED BUDGET BREAKDOWN"

- Annex 1 of the ORE proposal (pages 30-31, attached to the PIO/T and here for reference) provides an illustrative budget breakdown which formed the basis of the item-by-item negotiation between ORE and the Mission conducted by the Project Officer. The spreadsheet attached, entitled "Negotiated Illustrative Budget", provides the backup for the line items to be funded under the grant".
- " Mousson Finnigan, ORE Officer and staff member responsible for accounting will devote one quarter of her time to all accounting required under this project, as presented and approved by the mission during the final review. The revised budget (from \$4,200 to \$4,620) reflects the ten percent increase in salary ORE had planned for 1990, but which was not reflected in the previous budget".
- The \$4,620 per annum, in the "Negotiated Illustrative Budget" attached to the memorandum of negotiation and incorporated in the C/A detailed budget, was expressed as a US \$ EXPENSE. The memorandum of negotiation states that the salary was "presented and approved by the Mission during the final review".
- October 3, 1988 Memorandum attached to the AID C/A Negotiation file states "5. JUSTIFICATION OF BUDGET The Controllers Office has asked to work with ORE on-on-one in detail to review the budget before any PIO/T is prepared". A meeting was held with Nesterczuk, AID Controller and Kevin Mullally, ADO Project Officer for PST, and John Horton, OPE Project Officer for the Mango project. The division of payment of salaries between the two AID projects and the US \$ salary for Mr and Mrs. Finnigan were discussed and approved by Mr. Nesterczuk.

Management comments (cont'd)Both projects:

- The following persons at USAID and ARD were involved in budget negotiations including the Finnigan's salary and benefits status; and at no time indicated to ORE that their benefits were questionable or that additional authorization was required:
- | | |
|--|---------------------------|
| - M. Webber, Contracting Officer, AID | (TWMP-PST) |
| C. McIntyre, Project Officer, AID | (TWMP-PST) 1989-91 |
| K. Mullally, Project Officer, AID | (TWMP-PST) 1991-92 |
| C-E Philoctete, Proj. Coordinator, AID | (TWMP-PST) 1989-92 |
| M. Fontaine, ADO Officer, AID | (TWMP-PST) 1990-92 |
| M. Napper, Contracting Officer, AID | (Mango Project) |
| J. Horton, Project Officer, AID | (Mango Project) 1989-91 |
| C. Johnson, Cert. Officer, CONT., AID | (TWMP-PST 1989) |
| I. Nesterchuck, Controller, AID | (TWMP-PST and Mango) 1989 |
| Curtis Paskett, Chief of Party, ARD | (TWMP-PST 1989) |
| John Craig, Chief of Party, ARD | (TWMP-PST 1990-91) |
| Jim Gershin, Admin. Specialist, ARD | (TWMP-PST 1989-90) |
| David Holmes, Financial Manager, ARD | (TWMP-PST 1990-91) |



2. Salary revaluation

Condition

- Mrs Monique Finnigan's salary was revised following a revaluation of her functions.

Criteria

- Salary revisions must be approved by AID through the designated grant manager (ARD).

Cause

- Mrs Finnigan's job description was changed to reflect the actual work performed and responsibilities assumed. Her salary was revised and submitted to ARD (the designated grant manager).

Effect

- Because ORE did not obtain an authorization from AID through the designated grant manager (ARD) the increase in salary is questionable for US\$15,750 in project 521-0191 and US\$4,250 for project 521-0167.

Recommendation

- We recommend to ORE, that salary revisions be submitted to AID through the designated grant manager (ARD) for approval.

Management Comments

- The auditor's criteria for this finding are "Salary revisions must be approved by AID through the designated grant manager". There is no requirement in the cooperative agreements, AID Handbook 13 or OMB Circular A-122 "Cost Principles for Non Profit Organizations" stating that salary revisions require special authorization by AID.
- Circular A-122 does however state on page 46022, Summary of Significant Changes: 1. "Paragraph 6. Compensation for Personal Services, was modified to: ...d. Delete a paragraph dealing with review and approval of compensation of individual employees".

Management comments (cont'd)

- Circular A-122 also states on page 46022, Summary of Significant Changes: "Paragraph 4 of the basic Circular has been amended to make it clear that the absence of an agreement on any element of cost will not in itself affect the reasonableness of allocability of that element. Also, this paragraph was amended to make it clear that where an item of cost requiring prior approval is specified in the budget, approval of the budget constitutes approval of the cost". In 4.b. "Prior Approval" the Circular states "Prior Approval means securing the awarding agency's permission in advance to incur costs for those items that are designated as requiring prior approval by the Circular. Generally this permission will be in writing. Where an item of cost requiring prior approval is specified in the budget of an award, approval of the budget constitutes approval of the cost".

Citation of C/As and C/A budgets

- The PST C/A Financial Plan Attachment 1 states that "Revisions to this (financial) plan shall be made in accordance with the standard provision titles "Revision of Grant Budget". This provision in Handbook 13, App 4D states: "The approved grant budget is the financial expression of the grantee's program as approved during the grant award process".
- The revised salary level was approved by AID in budget amendments as follows:

Budgets itemizing the new salary level were submitted to ARD and approved by AID as per the C/A 521-0191-A-00-8010-00: "The designated grant manager will provide financial, administrative and technical assistance and oversight to ORE and its operations under Project Sove Te. Each year the project will be incrementally funded, subject to the availability of funds, based on annual work plans and budgets submitted to ARD and approved by AID".

DETAILED PST BUDGET APR-SEPT 91, approved in amendment 6, states as follows:

<u>1. SALARIES</u>	<u>GOURDES</u>	<u>US\$</u>	<u>MONTHLY RATE \$</u>
ASSISTANT DIRECTOR M.F.	\$ 0.00	\$ 15,000.00	\$ 2,500.00
BENEFITS	\$ 0.00	\$ 3,750.00	\$ 625.00

This salary level was also approved in amendment's 7 and 11 (June 1992).

Management comments (cont'd)

- The salary level was approved for the Mango Project after negotiations with John Horton, Project Manager OPE, USAID, as follows: Additional funds for the "Accounting Supervisor", (Mrs. Finnigan's position in the Mango Project) were added to the Mango Budget in September 1990 as per page 3 of Amendment 4 to Grant N° 521-0167-G-SS-0005-00.

Reasonableness

- Mrs. Monique Finnigan's salary revaluation was discussed with ARD, the designated grant manager for the PST Project, and John Horton, OPE Project Officer for the Mango project, prior to becoming effective. The salary revaluation for Mrs. Finnigan was based on her performing the work and taking the responsibilities of the Chief Accountant, (who was unable to perform the work). Her job description was changed from the previous "assistant under the Chief Accountant" to "responsible for all accounting". Mrs. Finnigan was also made ORE/PST Project Director in August 1990, as per job description change and notification to AID (August 1990). The job involved accounting for \$370,950 per annum in 1988, rising to \$971,744 in 1991, involving an average minimum of 60 hours work a week.
- The expenses for accounting and accounting supervision did not exceed the funds approved in the budgets by USAID for this purpose. The salary level is reasonable for the responsibility and work-load for a person such as Mrs. Finnigan, (educated in Paris, France 1958-1971; British citizen 1973; medical doctor - Fac. de Medicine, Paris & Fac. de Medicine Haiti), ORE/PST Project Director 1990-1992.
- Mrs. Finnigan continued to work a minimum of 60 hours a week on the accounting and as director of the project until its conclusion in 1992. Attempts to obtain additional professional accounting services in Camp Perrin were unsuccessful because of the unstable political situation and the fact that due to incremental and short-term funding, we were unable at any given time to offer an employment contract for more than six months. Professionals were unwilling to take up a new position outside the capital for such a short duration during the troubled period.

3. Employee Benefits

Condition

- Mr and Mrs Finnigan received unreasonable employee benefits for local hires. Mr Sean Finnigan could be considered a third country national (TCN) and Mrs Monique Finnigan as a cooperative country national (CCN).

Criteria

- Local hires are not subject to those employee benefits.

Causes

- According to C. Paskett's letter, S. and M. Finnigan were considered as expatriates.
- Management was unaware that they were considered local hires by USAID.

Effect

- The benefits (social and security, medical insurance, life insurance and child education) represent 33%-41% of salary received. Therefore an amount of US\$50,345 for project N° 521-0191 and US\$6,617 for project N° 521-0167 have been considered questionable in the fund accountability statements.

Recommendations

- We recommend to ORE to perform a frequent evaluation of the employee benefits paid in order to determine if they are reasonable and allowable under the terms of the agreements.

Management Comments

- The auditor's condition for this finding are "Mr and Mrs Finnigan received unreasonable employee benefits for local hires. Mr Sean Finnigan could be considered a third country national (TCN) and Mrs. Monique Finnigan as a cooperative country national (CCN)".
- Sean Finnigan and Monique Finnigan were employed as expatriate employees, as per the approved cooperative agreement budgets, not as local hire. TCN and CCN nationality status are categories covered under Handbook 14 which does not apply to either of ORE's cooperative agreements.
- ORE's original proposal and budget in USAID files (Jan 88), and the Financial Plan and detailed budget in the PST cooperative agreement No. 521-0191-A-00-8010-00, and 5 budget amendments 1988 - 1991, all stipulate US \$ salaries and benefits for Director and Assistant Director, (for which positions Sean Finnigan and Monique Finnigan had been identified).

Management Comments (cont'd)

- Negotiation documents on file at AID discuss the expatriate employee status and benefits which were approved in the final budget - reference: ORE request for Funding to ARD-USAID (Jan 88), PST-ARD memo 097 to USAID (2, Feb 88) and USAID CONT memo to ARDO (1, March 88). ORE's procedure manual submitted to AID in March 88 also qualified the Finnigans as expatriate employees.
- USAID gave written and tacit approval for the Finnigan's US \$ salary and benefits from April 1988 to June 1992, and did not at any time inform ORE either that the Finnigans were considered local hire or that their benefits were questionable.

OMB Circular A-122

- Federal Register OMB Circular A-122, "Cost Principles for Non Profit Organizations" states on page 46027 in section 6. Compensation for personal services, f. Fringe benefits : "(2) Fringe benefits in the form of employer contributions or expenses for social security, employee insurance, pension plan costs (see paragraph g. below), and the like are allowable provided such benefits are granted in accordance with established written organization policies."
- The ORE Procedures Manual (March 1988) was submitted to AID as required under Conditions Precedent to Disbursement and Covenants - (reference: ARD memo to AID Project Officer, March 21, 1988 - attachment 9. ORE Procedures Manual - Draft of March 1988). The manual states, on page 14, Contracts:
- "EXPATS AND BENEFITS: ORE considers any employee that has legal residence status in any country other than Haiti an ex-pat. As an ex-pat employee there are various benefits available to cover his cost of living in Haiti. The sum total of all benefits will not exceed 25% of the employee's base pay. Each employee will have different needs and their individual contracts will determine which benefits apply.
- "If the employee is subject to withholding tax, then these taxes will be taken out of and considered in the 25%. Normal education allowances for school age dependents, utilities, medical and evacuation insurance, and housing costs are other expenses that are considered. Any cost that is covered must be a true out of pocket expense to the employee. Limitations apply for husband and wife teams, thus the 25% limit may be reduced to prevent double expenses".
- The PST Project Officer, Catherine McIntyre was informed by ORE on January 4th 1988 that Mr and Mrs Finnigan were officially resident in the US. She approved the documentation for the conditions precedent in USAID memos ARDO/88/335, March 22, 1988 and ARDO/88/365, March 30, 1988.



Management Comments (cont'd)

- The Finnigans' benefits, as identified in the detailed budget attached to the original C/A, were negotiated on the basis of US (Florida) residents with expatriate employee status as defined in the ORE Procedures Manual. ORE may have exceeded the 25% of the salary level for these benefits in relation to a life insurance policy as described below (see Life Insurance Policy), but the principle of paying benefits for S. and M. Finnigan has been approved by AID since 1988.
- Circular A-122 also states, in 4.b. "Prior Approval", "Prior Approval means securing the awarding agency's permission in advance to incur costs for those items that are designated as requiring prior approval by the Circular. Generally this permission will be in writing. Where an item of cost requiring prior approval is specified in the budget of an award, approval of the budget constitutes approval of the cost."

Citation of C/As and C/A budgets

- The PST C/A Financial Plan Attachment 1 states that "Revisions to this (financial) plan shall be made in accordance with the standard provision titles "Revision of Grant Budget". This provision in Handbook 13, App. 4D states: "The approved grant budget is the financial expression of the grantee's program as approved during the grant award process".
- Costs for salaries and benefits were made according to the approved Financial Plans and Budgets for the cooperative agreement:

PST C/A No. 521-0191-A-00-8010-00:

TABLE I : FINANCIAL PLAN, states as follows :

BUDGET LINE	EXPENSE CATEGORY	YEAR ONE 1 April 1988 - 31 March 1989		
		US Dollars Req'd.	Gdes Req'd. Expressed US\$ @ 5:1	TOTAL US \$ REQUIRED
1	SALARIES & RELATED	\$142,100	\$315,570	\$457,670

Management Comments (cont'd)**BUDGET PROJECTION BY CATEGORY, states as follows:**

<u>1. SALARIES</u>	<u>LOCAL \$</u>	<u>US\$</u>	<u>TOTAL</u>
DIRECTOR S.F.	\$0.00	\$30,000.00	\$30,000.00
BENEFITS	\$0.00	\$ 7,500.00	\$ 7,500.00
ASSISTANT DIRECTOR M.F.	\$0.00	\$18,000.00	\$18,000.00
BENEFITS	\$0.00	\$ 4,500.00	\$ 4,500.00

- Sean and Monique Finnigan were identified as the Director and Assistant Director in ORE's PST Work Plan, section 17 - Project Personnel, submitted for negotiation to ARD/AID on January 5th, 1988. The January 88 Work Plan Budget included benefits for the Director and Assistant Director. Sean Finnigan is named as the Director in the cooperative agreement, and correspondence from the Project Officer also identified Mrs. Finnigan as the Assistant Project Director - (reference: C. McIntyre, ARDO/88/336, March 22 1988).
- The USAID Memo of Negotiation, R.F. Webber, August 5th 1988 to USAID File, states concerning C/A N° 521-0191-A-00-8010-00: "The budget as contained in the cooperative agreement is the result of a proposal from ORE in conjunction with the umbrella organizations technical assistance advisor firm (Associates in Rural Development). Budget revisions were made after a detailed review for project cost reasonableness, justification and allowability by USAID/H technical office and Controller". Both ORE's revised proposal and budget, on file at AID, and the Financial Plan and detailed budget attached to the C/A, stipulate benefits for the Director and Assistant Director, (identified as Sean Finnigan and Monique Finnigan).

The Designated Grant Manager - Associates in Rural Development (ARD)

1. USAID's memo of negotiation (August 5, 1988) for the PST project states: "It was recognized, in the project paper phase, that the Haitian NGO's lacked the financial and administrative capacity to provide AID with required record keeping and accountability. An AID direct technical assistance contractor is providing assistance and training in the areas of administration and financial controls to the four NGO's in order to comply with AID requirements for prudent management and fiscal administration".
2. As per the C/A 521-0191-A-00-8010-00, "The designated grant manager will provide financial, administrative and technical assistance and oversight to ORE and its operations under Projet Sove Te. Each year the project will be incrementally funded, subject to the availability of funds, based on annual work plans and budgets submitted to ARD and approved by AID".

Management Comments (cont'd)

3. ORE negotiated the PST cooperative agreement through ARD, by submitting detailed budgets to ARD which were negotiated with AID and ARD. Disapproved expenses were removed or modified, according to the established procedure for negotiation of C/A financial plans. The C/A financial plan was finally approved based on the negotiated detailed budget in which US \$ salaries and benefits were clearly identified for S. and M. Finnigans' positions.
4. ARD's memorandum of negotiation to USAID (2 February 1988) recommended approval of the Finnigan's salaries, including fringe benefits (medical/dental/life insurance and a retirement plan) for the expatriate staff, the Finnigans and Steve Goodwin. ARD expressed "provisional approval" of fringe benefits at 25% of the salary level. This memorandum was not copied to ORE and neither ARD nor AID notified ORE of the need for additional authorization during the negotiation process or thereafter.
5. ORE's procedures manual and specific benefits were negotiated in detail with the Contract Officer and Controller's Office at a final negotiation meeting held at USAID on March 18, 1988, attended by: Richard Webber, EXO Grants Specialist; Cat McIntyre, Project Officer; Claire Johnson, Controller's Office; Sean Finnigan, Project Director, ORE; and Mrs. Monique Finnigan, Asst. Project Director ORE; Steve Goodwin, Chief Accountant, ORE; Richard Hart, Financial Manager, ARD; James Gershin, Administrative Specialist, ARD.
6. The ARD PST Admin. Specialist's memorandum to the AID PST Project Officer (4 April 1988 - cc. Sean Finnigan - ORE) concerning ORE Vouchers #1 & #2 for local currency and US dollars requirements for the period 1 April thru 30 June 1988, which included S. and M. Finnigan's US salary and benefits, states: "These vouchers have been vetted by PST/ARD and they conform to ORE's approved Financial Plan/Illustrative Budget, as included in the Cooperative Agreement. Accordingly, I have signed off on the vouchers next to your signature block". The above memorandum, approving the expenses incorporated in the Financial Plan/Illustrative Budget, and the requested funds, clearly confirmed approval by ARD and USAID of the negotiated Financial Plan/Illustrative Budget, including the benefits expenses.
7. The original budget and workplan, and all subsequent budgets for amendments (2, 4, 5, 6 and 7), itemizing the Finnigan's benefits were submitted to ARD and approved by AID, as per the C/A. A similar budget was submitted for amendment 8 which was negotiated directly with AID. ARD certified to AID every month during the entire period 1988 - 1991 that the ORE disbursements, (which included benefits payments for S. and M. Finnigan), were correct.



Management Comments (cont'd)Both projects:

- The following persons at USAID and ARD were involved in budget negotiations including the Finnigan's salary and benefits status; and at no time indicated to ORE that their benefits were questionable or that additional authorization was required:

M. Webber, Contracting Officer, AID	(TWMP-PST)
C. McIntyre, Project Officer, AID	(TWMP-PST) 1989-91
K. Mullally, Project Officer, AID	(TWMP-PST) 1991-92
C-E Philoctete, Proj. Coordinator, AID	(TWMP-PST) 1989-92
M. Fontaine, ADO Officer, AID	(TWMP-PST) 1990-92
M. Napper, Contracting Officer, AID	(Mango Project)
J. Horton, Project Officer, AID	(Mango Project) 1989-91
C. Johnson, Cert. Officer, CONT., AID	(TWMP-PST 1989)
I. Nesterchuck, Controller, AID	(TWMP-PST and Mango) 1989
Curtis Paskett, Chief of Party, ARD	(TWMP-PST 1989)
John Craig, Chief of Party, ARD	(TWMP-PST 1990-91)
Jim Gershin, Admin. Specialist, ARD	(TWMP-PST 1989-90)
David Holmes, Financial Manager, ARD	(TWMP-PST 1990-91)

Life Insurance Policies

- The life insurance policies were understood to be combined life/retirement policies, and ORE was not aware that the coverage was higher than commonly accepted. ORE miscalculated the total of the employee benefit package, not realizing (until this was pointed out by the auditors in September 1992), that the FICA tax payments were also a benefit. ORE accepts responsibility for this error.
- The policies were cancelled in May 1992, (four months prior to the audit), and the cash surrender value of \$5,411.58, received in October 1992, has been reimbursed to AID, under Line Item 1. Salaries.



4. Remuneration of US based trustee

Condition

- ORE has a US based trustee who oversees US banking operations and US purchasing activities. This trustee received salaries and benefits.

Criteria

- Only expenditures directly related to the execution of the project can be reimbursed by AID.

Cause

- ORE'S prior experience with US brokers has led them to conclude that:
 - Brokers charge 10% commission on purchases;
 - Brokers do not pass on volume rebates;
 - Significant delays in shipping can occur;
 - Orders are not always complete and accurate therefore ORE believed that it was more efficient and cost effective to have a salaried part time employee who can be trusted to perform these transactions correctly.

Effect

- Because of the varying amount of work performed for the project it is difficult to determine if the remuneration received was reasonable for the amount of work performed. Starting in September 1990, we notice an increase in the salaries and benefits of the trustee that seemed unreasonable and not related with an equivalent increase of work. Therefore an amount of US\$28,846 for project N° 521-0191 and US\$7,600 for project N° 521-0167 have been considered questionable in the fund accountability statements.

Recommendation

- We recommend to ORE that this position be remunerated on a contract basis at a fixed hourly rate with prior approval from USAID/HAITI. This would allow better matching of costs to benefits received by the project.

Management Comments

- The auditor's criteria for this finding are "Only expenditures directly related to the execution of the project can be reimbursed by AID".
- Mr. B. Finnigan, a semi-retired professional accountant has been acting as a US based trustee for ORE since 1987 for the ORE Fruit Tree Project C/A No. 521-0182-A-00-5028-00, and for the two projects under audit. His name, position and salary level were submitted in the original funding request : (ORE's PST Work Plan, section 17 - Project Personnel, and the Work Plan Budget were submitted for negotiation to ARD/AID on January 5th, 1988). The budget was approved in the PST C/A 521-0191-A-00-8010-00. His position and salary were submitted with each budget supplied to ARD-AID for the original C/A and the eight budgetary amendments.

Management Comments (cont'd)

- All expenditures to Brian Finnigan related directly to the execution of the project, as documented in financial reporting, banking transactions, attendance sheets and salary reports. These activities were :
 - . supervision of DSB bank account 301 for the ORE PST project, (account 114 in ORE's project chart of accounts), and supervision of DSB bank account 901 for the ORE Mango project, (account 124 in ORE's Project chart of accounts). Supervision of the accounts involved: making check payments directly in the US; monthly bank reconciliations; preparing and sending to the Haiti office a monthly ledger of checks written in the US and checks written by the staff in Haiti; and keeping contact with the bank to enable rapid notification to the Haiti office of AID payments, (the best method to avoid periods of project inactivity due to the Haiti staff being unaware of the arrival of AID advances following frequent funding shortages);
 - . payment of a corporate credit card used exclusively for project procurements;
 - . preparing and sending a monthly courier package to the Haiti office including bank statements, invoices/receipts and documents for US payments for equipment, supplies and services for the PST and Mango projects, and correspondence and information relayed from other sources, (faxed technical information etc.);
 - . obtaining quotations, negotiating and making payments for project equipment and supplies (vehicles, vehicle parts, plant materials, office supplies, agricultural supplies);
 - . coordinating and consolidating shipments (1-2 containers per year) of project equipment and supplies through Florida shippers; and air-freight shipments for smaller items;
 - . coordination of arrangements for plant material (budwood) purchase trips;
 - . supervising trip coordination for bi-monthly technical research consultants (R. and P. Webb) University of Florida, Gainesville - (travel arrangements, advances etc.)

- The AID Project Officer, Catherine McIntyre, was informed by ORE (on 28th September 1987) that Brian Finnigan, was working in a part-time capacity "accounting for US expenditures and Petty Cash; obtaining quotes, supervising shipment and payment for project equipment; overseeing banking activities and issuing payments in the US" for the ORE Fruit Tree Project C/A. The same position was negotiated in the PST project, and Cat McIntyre requested Brian Finnigan's c.v. prior to approving the position. Brian Finnigan was identified as the Accountant US in ORE's PST Work Plan, section 17. Project Personnel, submitted for negotiation to ARD/AID on January 5th, 1988. The Work Plan Budget listed Accountant US with a salary of US 3,600 per annum.

- As per the C/A 521-0191-A-00-8010-00, "The designated grant manager will provide financial, administrative and technical assistance and oversight to ORE and its operations under Projet Sove Te. Each year the project will be incrementally funded, subject to the availability of funds, based on annual work plans and budgets submitted to ARD and approved by AID." The original budget and workplan, and all subsequent budgets for amendments (2,4,5,6 and 7), itemizing Brian Finnigan's salary as US Accountant were submitted to ARD and approved by AID, as per the C/A. A similar budget was submitted for amendments 8 and was negotiated directly with AID.

Management Comments (cont'd)Salary Level

- Procurement of supplies, equipment and plant materials were executed by B. Finningan in Florida with the assistance of S. Finnigan who made authorized procurements trips from 1988 - 1990. However, due to the increased workload involved with the two projects after the startup of the Mango Project in 1990, S. Finnigan was no longer available for the procurement trips and the increased responsibility was transferred to B. Finnigan. Other US based activities also increased during this period due to the second project.
- The salary level was increased in January 90 and August 90, and finally revaluated in September 90 at \$800 a month to reflect the increased workload. The salary level was approved by AID for PST in amendments 6 and 7. The volume of US expenses (excluding the Finnigan's salaries) rose from \$108,567 in 88 to \$216,104 in 89 and \$228,625 in 90. The total remuneration of \$36,446 over the five year period represents 5% of the total \$770,344 project expenses made in the US between 1988-1992, (This figure is excluding the Finnigan's salaries). The remuneration for the services is reasonable compared to commercial fees for such services.
- ORE provided medical insurance to Brian Finnigan. Medical insurance was also available to local and expatriate employees in the PST and Mango projects. Expenses for office space corresponded to the use of one room in Mr. Finnigan's house : containing desk, filing cabinet, fax/phone and storage space. Gasoline expenses correspond to transport for project activities : for banking and visiting local Florida suppliers, calculated on a monthly basis : (Gainesville, Ocala, Dunnellon, Florida).

Reasonableness

- As per the cooperative agreements, ORE was involved in international project activities. The objectives and implementation strategies of both projects required activities in the US in terms of plant introduction (budwood and seed materials were major components in both projects); direct hire technical assistance (R & P. Webb and C. Campbell); direct US procurement of supplies and equipment, (including specialized tissue culture laboratory and seed processing equipment and supplies).
- The position was cost-effective in terms of: eliminating 10% purchasing agent fees - (purchasing agents in our experience did not ensure quality, appropriateness or cost-effective pricing of goods); savings from discriminating purchasing; the assurance that equipment and supplies corresponded to requirements; oversight of consolidated shipments; reduced periods of project inactivity due to communication delays concerning the late payment of project funds in the US bank account; the availability of a responsible representative in the US to negotiate and obtain information; and reduced delays and costs by using a trusted staff member in the US to make payments, rather than attempting to make check payments in the US directly from Camp Perrin. (Camp Perrin has no mail service, frequently interrupted telephone and fax service, and has on several occasions during the course of the projects had no road communication due to political upheavals).

AUDIT OF THE TARGETED WATERSHED MANAGEMENT PROJECT AND THE
TECHNICAL CONSULTANTS AND TRAINING PROJECT
USAID/HAITI PROJECT N^{OS} 521-0191 AND 521-0167
MANAGED BY THE ORGANIZATION FOR REHABILITATION OF THE
ENVIRONMENT

For the period
July 1, 1989 to March 31, 1992

LIST OF REPORT RECOMMENDATIONS

1. INTERNAL CONTROL STRUCTURE

Recommendations

1. Inter-project transactions and accounting system

We recommend to ORE, that:

- All expenditures or shared expenditures be paid with checks from each project or at least a check should be made from one project to the other instead of a journal entry. This would reduce the risk of errors and eliminate the possibility of charging an expenditure twice.
- A conventional accounting software which is less flexible for data entry and which allows transaction cycle to be retraced more easily, should be used to record the transactions of the project. This would reduce the risk of errors occurring and not be detected.

2. Unsupported expenditures

- We recommend to ORE, that all expenditures charged to the projects should be supported by adequate documentation.

2. COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

Recommendations

1. Salaries paid in US currency

- We recommend to ORE to obtain the authorization from AID to pay salaries in US funds.

2. Salary revaluation

- We recommend to ORE, that salary revisions be submitted to AID through the designated grant manager (ARD) for approval.

3. Employee benefits

- We recommend to ORE to perform a frequent evaluation of the employee benefits paid in order to determine if they are reasonable and allowable under the terms of the agreements.

4. Remuneration of US based trustee

- We recommend to ORE that this position be remunerated on a contract basis at a fixed hourly rate with prior approval from USAID/HAITI. This would allow better matching of costs to benefits received by the project.

APPENDIX I

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IG/A/PPO	2
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