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UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
NAIROBI

AUDIT OF
THE GOVERNMENT OF MALAWI MINISTRY OF
AGRICULTURE CLAIMS UNDER THE
MALAWI AGRICULTURAL RESEARCH PROJECT
AND THE AGRICULTURAL RESEARCH
AND EXTENSION PROJECT--GRANT
NOS. 79-612-10 AND 85-612-G-04

AUDIT REPORT NO. 3-612-90-06-N
May 31, 1990

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

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May 31, 1990

MEMORANDUM FOR DIRECTOR, USAID/Malawi, Carol A. Peasley

FROM: Toby L. Jarman, RIG/A/Nairobi

For

John J. Otte

SUBJECT: Non-Federal Audit of the Government of Malawi Ministry of Agriculture Claims Under the Malawi Agricultural Research Project and the Agricultural Research and Extension Project--Grant Nos. 79-612-10 and 85-612-G-04, Audit Report No. 03-612-90-06-N

Attached is a copy of the subject audit report. The report presents the results of a non-Federal audit performed by KPMG Peat Marwick under the supervision of the Regional Inspector General for Audit, Nairobi. This audit was performed to close a recommendation in Audit Report No. 3-612-88-17, dated June 30, 1988.

Over the past decade USAID/Malawi has signed two grant agreements with the Government of Malawi, supporting projects which sought to improve the Ministry of Agriculture's institutional capacity to increase agricultural productivity and to identify crops for diversifying smallholder production. The two grants are:

- Grant No. 79-612-10, under the Malawi Agricultural Research Project No. 612-0202; and
- Grant No. 85-612-G-04, under the Malawi Agricultural and Research Extension Project No. 612-0215.

The two grants totalled \$23.4 million, which was disbursed by USAID/Malawi using two methods: (1) by USAID/Malawi paying vendors directly for goods and services, and (2) by USAID/Malawi reimbursing the Ministry of Agriculture (the Ministry) directly for costs the Ministry had incurred for project-related purposes.

The audit covered only those costs incurred directly by the Ministry and reimbursed by USAID. Specifically, the audit covered the Financial Statement of Revenue and Expenditures prepared by the grantee (the Ministry of Agriculture), which showed total receipts and expenditures by the Ministry of \$2,323,513 for the two projects shown above.

The audit determined that the Statement of Revenue and Expenditures (financial statement) was prepared in conformity with generally accepted accounting principles, with the exception of the expenditure described in the note to the financial statement (see page 11 of the audit report). However, KPMG Peat Marwick questioned costs of \$137,718 and identified unsupported costs of \$244,196.^{1/}

The audit also evaluated the system of internal accounting control to determine the nature, timing and extent of auditing procedures necessary for expressing an opinion on the financial statement. This evaluation was too limited to allow the auditors to express an opinion on the system of internal accounting control taken as a whole. The auditors did, however, recommend some improvements in internal accounting controls.

The audit also reported on compliance with laws, regulations and program requirements. In connection with their examination, the auditors found that for the items tested, which are identified in Schedule I of this report, the Ministry of Agriculture complied with laws, regulations and the terms and conditions of the agreements. However, the auditors found that the Ministry was not complying with the terms and conditions of the agreement in respect of those items in Schedule II of the report.

Based on comments from USAID/Malawi and the Regional Financial Management Center (RFMC) in Nairobi, the auditors extended some of their audit verification tests and made various changes to the draft report.

^{1/} The Inspector General's office has adopted new terminology to classify uncertain costs. Costs that lack adequate documentation are now classified as "unsupported". Previously (and in this report), costs lacking adequate documentation were classified as questioned costs. Similarly, costs not in accordance with contract terms, conditions and applicable laws and regulations are now classified as "questioned"; previously (and in this report), they were classified as disallowed costs. The ultimate disposition of unsupported and questioned costs is to be determined by the contracting officer.

The auditors, USAID/Malawi and RFMC could not agree on the proper classification of \$137,580 of the \$137,718 of questioned costs and all \$244,196 of unsupported costs. The auditors classified costs of \$137,580 related to fertilizer demonstration costs as questioned, since supporting documentation required by USAID Handbook 13 was not maintained. The Mission, however, does not believe the \$137,580 should be questioned because, according to the Mission, the Ministry was not capable of maintaining detailed accounting records at the time.

With respect to the questioned costs, RIG/A/N is concerned that USAID/Malawi funded two agricultural grants without first making sure that the grantee could adequately account for U.S. Government funds. In our opinion, this condition could have resulted in a major discrepancy between costs reimbursed and actually incurred. Although the auditors subsequently accepted the Ministry's financial system, RIG/A/N believes that the Mission should take action to ensure adequate accountability for other grants it may have made to other Government of Malawi institutions.

The auditors also classified costs of \$244,196 related to incremental recurrent costs as unsupported because adequate supporting documentation, in the auditor's opinion, could not be located. RFMC, however, does not agree that the support for the \$244,156 is inadequate. The complete comments of the Mission and RFMC are included in Appendices 2 and 3, respectively, of this 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 the Regional Economic Development Services Office (REDSO) Regional Contracting Officer in Nairobi:

- a. determine the allowability and recover, as appropriate, \$137,718 in questioned costs from the Government of Malawi's Ministry of Agriculture;
- b. determine the allowability and recover, as appropriate, \$244,196 in unsupported costs from the Government of Malawi's Ministry of Agriculture; and
- c. provide documentation of these actions to the Regional Inspector General for Audit, Nairobi.

Recommendation No. 2

We recommend that the Mission Director USAID/Malawi:

- a. evaluate the ability of each of its grantees to adequately account for all U.S. Government funds provided to them;
- b. provide the Regional Inspector General for Audit/Nairobi with documentation of the results of this evaluation; and
- c. require pre-award surveys of the accounting system of internal controls for all future grantees for which the Mission lacks knowledge of the adequacy of the grantees' accounting system.

We consider the recommendations as unresolved pending a specified plan for corrective action. Please advise me, within 30 days of the actions taken or planned to close the recommendations. We appreciate the cooperation and courtesy extended to KPMG Peat Marwick.

REPORT ON THE FINANCIAL AND COMPLIANCE
AUDIT OF THE GOVERNMENT OF MALAWI
MINISTRY OF AGRICULTURE PAST LOCAL
CLAIMS UNDER THE MALAWI AGRICULTURAL
RESEARCH PROJECT AND THE AGRICULTURAL
RESEARCH AND EXTENSION PROJECT - GRANT
NOS. 79-612-10 AND 85-612-G-04

GOVERNMENT OF MALAWI AGRICULTURAL RESEARCH PROJECT AND
AGRICULTURAL RESEARCH AND EXTENSION PROJECT

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GOVERNMENT OF MALAWI MINISTRY OF AGRICULTURE
U.S.A.I.D. GRANT NO.79-612-02 (PROJECT NO.612-0202)
AND GRANT NO.85-612-G-04 (PROJECT NO.612-0215)

INTRODUCTION

1. BACKGROUND

Over the past decade USAID/Malawi has signed two grant agreements with the Government of Malawi (G.O.M.), supporting projects which sought to improve the Ministry of Agriculture's (MOA) institutional capacity to increase the productivity of traditional crops and to identify the best crops for diversifying smallholder production through technical assistance, participant training and limited commodity and operating support.

The two projects are:

612-0202 - Malawi Agricultural Research Project (MARP)

This grant was signed on August 28, 1979 and was completed on September 30, 1987.

612-0215 - Malawi Agricultural and Research Extension Project (MARE).

This grant was signed on September 24, 1985 and is due to expire on September 30, 1992.

USAID/Malawi's project grants to the MOA in connection with the above totalled US\$23.4 million. The grant funds have been conveyed in two ways: by USAID/Malawi directly paying vendors for goods and services by USAID reimbursing the MOA for costs and services incurred.

Under the second method, the MOA first paid for goods and services and then submitted claims for reimbursement to USAID/Malawi. The MOA had to segregate the costs pertaining to the USAID-supported activities and list them on a summary statement of expenditures to support the claim. Up to June of 1989, neither USAID/Malawi nor USAID regulations required the MOA to submit paid vouchers and receipts in support of the summary statements of expenditures and consequently these were not submitted.

Following an audit by RIG/A/Nairobi in June of 1989, costs claimed under the reimbursement system totalling \$410,132 under both projects were questioned. In addition the audit report stated that the MOA despite having an operative accounting system, appeared to be inadequate to meet a multiplicity of donor requirements and this resulted in problems of accounting to USAID for project expenditures.

A summary of the financial status of the project and grants as at August 31, 1989 is shown in Appendix I.

2. AUDIT

Subsequent to the audit by RIG/A/Nairobi, Peat Marwick - Nairobi were requested to perform a financial and compliance audit of the Ministry of Agriculture local costs paid under past claims and the Ministry's donor related accounting systems (Project Numbers 612-0202 and 612-0215, by the Regional Inspector General's Office in Nairobi under contract number OTR-0000-I-00-6166-00 (Delivery Order Number 10).

3. AUDIT OBJECTIVES

Our contract required us to undertake the following tasks in respect of the period from August 28, 1979 to August 31, 1989:

- perform a financial and compliance audit of Ministry of Agriculture (MOA) local costs paid under past claims and the Ministry's donor related accounting systems by:
 - (a) determining whether the financial statements and costs claimed by the MOA under the grants are reasonable and result from authorized activities;
 - (b) determining whether the MOA complied with the laws, regulations, and operating provisions which may have a material effect on the cost incurred;
 - (c) analyzing the potential for cost savings through more efficient and/or effective operations;
 - (d) preparing a professional audit report in accordance with SAS 62 (formerly SAS 14) and AU Section 621, analyzing problem areas, proposing recommendations and itemising costs recommended for acceptance, disallowance and further negotiations (questioned costs).

4. AUDIT SCOPE

The audit was designed to cover the local expenditure incurred and reimbursed to the MOA by USAID. The amounts paid under the grants by USAID directly to vendors for goods and services were not part of our audit scope and consequently were not audited under this engagement.

In respect of control matters, we have reviewed the MOA system of internal accounting controls insofar as they were relevant to the above-mentioned expenditure.

The results of our audit are detailed in the Audit Reports on pages 9 to 25.

5. RESTRICTIONS ON AUDIT SCOPE

The field work for the audit of Project Numbers 612-0202 and 612-0215 was carried out in two stages, late September and early December, 1989. On our arrival in Lilongwe in late September we were informed that the official permission required in order to gain access to the MOA records had not been obtained. Such permission was likely to take 6-8 weeks to obtain. These permits were received in early December 1989, whereupon the field work was completed.

Due to the age of the older project, No.612-0202 which commenced in August 1979, and was completed in September 1987, it proved extremely difficult to obtain sufficient documentation, and to locate the personnel involved on the project. The problem applied equally to USAID/Malawi, the Ministry of Agriculture, and RFMC/Nairobi. (All payment voucher files and official accounting records for claims paid prior to May 31,1987 are maintained at RFMC/Nairobi).

In the GOM Ministry of Agriculture, in common with other ministries, it is Government policy to relocate personnel to different ministries after a period of about two years. Thus, during our time at the MOA, it was not possible to locate any personnel who had been involved in submitting the claims for Project No.612-0202 to USAID. Likewise, the personnel at USAID/Malawi in Lilongwe and at RFMC/Nairobi, who had been involved with the claims, could not be located.

We requested details of the payment vouchers relating to Project No.612-0202 from RFMC/Nairobi. All of these records had been archived. As regards the cost category, Incremental Recurrent Costs, of the total of US\$272,553 disbursed, payment vouchers, including the required summary statements of expenditure, of only US\$37,022 were located by RFMC/Nairobi, by the time we came to complete our field work. It is our opinion that further costs of US\$8,665 included in the US\$37,022 should be questioned for the reasons given in Section B.2.2.

Since some of the payment vouchers were not available for inspection, it was not possible to ascertain what was being claimed, and thus not possible to vouch the claim to supporting documentation. At the MOA in Lilongwe, it was possible to agree the payment vouchers received from RFMC/Nairobi to cost ledgers that recorded the Incremental Recurrent Cost for the project. However, the supporting documentation (invoices, payment vouchers, etc.) had been archived at Zomba, a city approximately 200km from Lilongwe. Furthermore, access to the archives could not be gained without further official application to inspect specific files. On receipt of permission, which could take up to a further 6 weeks (according to MOA personnel), the auditors in person would be required to go to Zomba for the inspection of the files, i.e. the files could not be brought to Lilongwe. In our opinion, the costs involved in the verification of this expenditure of US\$28,357 do not warrant any further work in this area. Consequently, these costs are recommended for acceptance.

The other cost category where problems were encountered was the Fertilizer Demonstration Extension Program under Project No.612-0215. Local costs totalling US\$137,580 were reimbursed under this cost category in November and December 1987. The costs incurred related to the period October 1985 to July 1987. The original grant relating to this project was signed on September 24, 1985, but made no provision for costs of Fertilizer Demonstration Extension Program. An amendment to the grant, dated April 14, 1986 provided for a line budget item totalling US\$300,000, entitled Fertilizer Demonstration Extension Program. The expenditure occurred in a number of outlying districts, where programs other than the Fertilizer Demonstration Program were being carried out simultaneously. Because the decision to fund the Fertilizer Demonstration Program was not taken until April 1986, no separate books of account were maintained for that expenditure. (In fact, according to MOA officials, no separate books were maintained until mid-1988).

The claims that were made were based on an estimate by MOA officials of what the likely expenditure was during that period of the Program. No records were kept of this exercise. Even if the exercise were to be repeated, i.e. going to the districts where the records are maintained and attempting to isolate that expenditure which relates specifically to the Fertilizer Demonstration Extension Program, the best audit evidence that would be obtained would be the assurance of the officials involved that specific costs related to the Program in question.

In our opinion, the limit on the audit evidence which could be obtained in further verification of this expenditure does not justify any additional audit work.

It is also worthy of note that, according to an internal memorandum from the Secretary for Agriculture to the Secretary for the Treasury, the MOA was given to understand, by USAID/Malawi, that since many of the relevant districts were unable to isolate expenditures on the Fertilizer Demonstration Program, USAID/Malawi would be prepared to accept proportions of the total expenditure on the relevant items in each district for reimbursement purposes.

Our audit report was requested subsequent to the RIG/A/Nairobi audit reports number 3-612-88-16 and 3-612-88-17 of June 29, 1988 and June 30, 1988 respectively, wherein claims paid in total of US\$410,132 were questioned and it was noted that the MOA accounting systems appeared to be inadequate to meet a multiplicity of donor requirements. Whereas we have agreed that claims paid of US\$381,914 should be questioned or disallowed (see Section B.2.), we found that the present Vote Ledger/Accounting code structure has the ability to segregate USAID costs under the present project (No.612-0215) from other non-USAID funded projects. Our audit report on the Internal Accounting Control in Section C of this report sets out our findings and recommendations, most of which we understand are presently either being implemented or are in the process of implementation.

INDEPENDENT AUDITOR'S REPORT ON LOCAL EXPENDITURE REIMBURSED BY USAID

We have examined the Statement of the Government of Malawi Agricultural Research Project and Agricultural Research and Extension Project Local Expenditure reimbursed by USAID for the period from August 28, 1979 to August 31, 1989 as prepared by USAID/Malawi. USAID had grant numbers 79-612-10 and 85-612-G-04 with the Government of Malawi during this period. This financial statement is the responsibility of the Government of Malawi, Ministry of Agriculture. Our responsibility is to express an opinion on this financial statement based on our audit.

Our examination was made in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions (1988 Revision)" and, accordingly included such tests of the accounting records and other such auditing procedures as we considered necessary in the circumstances. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used by management, as well as examining the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

This financial statement was prepared in conformity with generally accepted accounting principles with the exception of the expenditure described in the Note to the financial statement.

In our opinion, the Statement of USAID Local Expenditure Reimbursed for the Government of Malawi Agricultural Research Program and Agricultural Research and Extension Program prepared by USAID in Malawi, attributed to the USAID grants during the period August 28, 1979 to August 31, 1989 is fairly stated in accordance with the terms and conditions of the grant agreements with USAID and the applicable U.S. Government laws and regulations which have been applied on a consistent basis, with the exception of expenditures of US\$137,718 which are recommended for disallowance and expenditures of US\$244,196 which are recommended for questioning.

Contractor information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of the Government of Malawi or USAID, and should not be used for any other purpose.


CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

Date: 16 May 1990

1. STATEMENT OF THE GOVERNMENT OF MALAWI AGRICULTURAL RESEARCH
 PROJECT AND AGRICULTURAL RESEARCH AND EXTENSION PROJECT
 LOCAL EXPENDITURE REIMBURSED BY USAID FOR THE PERIOD FROM
 AUGUST 28, 1979 TO AUGUST 31, 1989.

 (All amounts are in US Dollars)

Project No. Element No.	Project Title Element Description	Local Costs Reimbursed
-----	-----	-----
612-0202	Agricultural Development Program	
04	Construction	\$ 1,889,872
05	Incremental Recurrent Costs	272,553

		\$ 2,162,425

612-0215	Agricultural Development and Extension Program	
02	Training	\$ 21,303
04	Administrative Support	2,205
05	Fertilizer Demonstration Extension	137,580

		\$ 161,088

TOTAL EXPENDITURES REIMBURSED		\$ 2,323,513

1.1. Note to the Financial Statement

Note

Expenditures reimbursed of US\$137,580 were not prepared in conformity with generally accepted accounting principles because adequate financial records were not maintained to record these expenditures. The balance of the expenditures were prepared in accordance with generally accepted accounting principles.

GOVERNMENT OF MALAWI AGRICULTURAL RESEARCH PROJECT AND
 AGRICULTURAL RESEARCH AND EXTENSION PROJECT

2. QUESTIONED AND DISALLOWED COSTS

(All amounts are in US Dollars)

PROJECT NO.
612-0202

Cost Category	Local Cost Claimed	Costs Recommended for Acceptance	Costs Recommended for Disallowance	Costs Questioned	Note
Construction	\$1,889,872	\$1,889,734	\$ 138	-	2.1.
Incremental Recurrent Costs	272,553	28,357	-	\$244,196	2.2.
	\$2,162,425	\$1,918,091	\$ 138	\$244,196	

PROJECT NO.
612-0215

Training	\$ 21,303	\$ 21,303			
Admin. Support	2,205	2,205			
Fertilizer Demonstration	\$137,580	-	\$137,580	-	2.3.
	\$ 161,088	\$ 23,508	\$137,580	\$ -	
	\$2,323,513	\$1,941,599	\$137,718	\$244,196	

QUESTIONED AND DISALLOWED COSTS - NOTES

2.1. CONSTRUCTION COSTS

Amount paid for which there is no supporting documentation	- \$ 138 =====
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As discussed in Section B3, result No.3, it appears that US\$138 was overpaid on one particular claim. In view of the amount involved, however, we do not recommend any further action.

2.2. INCREMENTAL RECURRENT COSTS

Questioned

Incremental Recurrent costs for which supporting documentation is not available	- \$244,196 =====
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As discussed in Section A.5 it may not be possible to vouch this expenditure to supporting documentation, as the detailed claims for expenditure amounting to US\$235,531 had not been located by RFMC/Nairobi at the time of our field work.

As regards the balance of US\$8,665, adequate supporting documentation was not available to decide on the allowability or otherwise of this amount, as discussed in Section B.4 result No. (c).

2.3. FERTILIZER DEMONSTRATION

Unsupported Costs	- \$137,580 =====
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These costs are not supported, because at the time of their incurrence, the MOA did not have an adequate financial management system which provided for accounting records supported by documentation that identified, segregated, accumulated and recorded all costs incurred under the grant, as required by USAID Handbook 13.

3. CONSTRUCTION COSTS

All construction costs were reimbursed on a Fixed Amount Reimbursement (FAR) method. Specific construction projects including the reimbursable amounts were authorized by a Project Implementation Letter (PIL), and the FAR's were made after the construction was completed and inspected by a USAID appointed engineer.

VERIFICATION

1. Ensured that each FAR made was in accordance with the PIL for that construction project.
2. Ensured that each construction project was approved as satisfactorily completed by a USAID appointed engineer prior to reimbursement.
3. Determined that total expenditures were within the parameters as laid down in Amendment No.5.

RESULTS

1. All projects were approved as satisfactorily completed by a USAID appointed engineer prior to reimbursement.
2. Total expenditures under this cost category were within the parameters of Amendment No.5.
3. PIL No. 4 allowed for expenditures totalling US\$306,279. However, according to USAID records, claims of US\$421,932 were paid out under this PIL, an excess of US\$115,653. In other cases, the amounts claimed were substantially below the amounts permitted by the PIL. It is possible that this difference is due to accounts posting errors at RFMC/Nairobi. However, it was not possible to verify this, as RFMC/Nairobi could not locate all the claims relating to Construction Costs reimbursed.

Subsequent to the submission of our draft report, RFMC/Nairobi have produced further evidence that this apparent overclaim did, in fact, result from mispostings. Specifically, US\$104,425, US\$1,990 and US\$9,100 of the apparent overclaim of US\$115,653 should have been posted against PIL numbers 3, 5 and 6 respectively. The balance of US\$138 appears to be an overpayment and this amount only is recommended for disallowance.

CONCLUSION

We recommend that costs of US\$138 be disallowed as there is no supporting documentation for this payment. We recommend that Constructions Costs reimbursed of US\$1,889,735 be accepted.

4. INCREMENTAL RECURRENT COSTS

The grant agreement provides no definition of Incremental Recurrent Costs, but the claims that were made and accepted by USAID covered miscellaneous overhead costs incurred by the Government of Malawi in the areas where the project was carried out. These overhead costs include wages, travel, vehicle maintenance and other project costs.

VERIFICATION

1. Vouch the claims made to supporting documentation, ensuring costs claimed are allowable, allocable and reasonable.
2. Determine that the total expenditure is within the parameters as set down in Amendment No.5.

RESULTS

(a) As discussed in more detail in Section A.5., at the time of our field work, neither RFMC/Nairobi nor the Ministry of Agriculture in Malawi could locate details of claims made amounting to US\$235,531. These costs have been questioned on the basis that adequate supporting documentation could not be inspected.

(b) The claim documentation including supporting schedules that was located by RFMC/Nairobi amounted to US\$37,022. The recurrent costs for the project were maintained in cost ledgers, and the claims were agreed to those ledgers on a month-by-month basis. However, the claims do not appear to have taken into account year-end audit adjustments for mispostings, errors, etc. and so, based on these ledgers, an overclaim of US\$8,665 was made. These costs are recommended for disallowance.

Subsequent to the USAID/Malawi response to our draft report, and the fact that in order to verify the allowability or otherwise of this amount, the detailed claims for earlier years would also require auditing, we accept that the amount of US\$8,665 should be questioned, rather than disallowed.

(c) Expenditures and reimbursed amounts were within the parameters as set out in Amendment No.5 to the Grant.

CONCLUSION

We are unable to give an opinion on costs of US\$244,196. These costs should be followed up by USAID/Malawi and the Government of Malawi to determine whether any further action should be taken.

The balance of US\$28,357 should be accepted, in our opinion, because the amount does not warrant any further audit work.

5. TRAINING

Local training costs are in-country training and research costs for a number of individuals specified by PIL. These include travel to and from courses and living expenses during the duration of these courses.

VERIFICATION

-
1. Agree claim documentation to relevant PIL's ensuring that costs claimed are within the parameters of the PIL.
 2. Agree a sample of costs claimed to supporting documentation, ensuring that items are allowable under the contract and U.S. law, related to the project, prices are reasonable, and the method of allocation is appropriate.

RESULTS

-
1. All costs claimed were within the parameters of the relevant PIL.
 2. All items selected were in accordance with the project grant agreement and U.S. law, related to the project, the prices appeared reasonable, and the method of allocation appeared reasonable.
 3. Costs incurred to date were within the obligations set out in Grant Amendment No.4.

CONCLUSION

Based on the results of our testing, we consider that local training costs of US\$21,303 should be accepted.

6. ADMINISTRATIVE SUPPORT

Grant Amendment No.4 provides for Administrative Support of US\$532,000, which includes operating funds for two project vehicles, training materials, office supplies and program funds for technical assistance. Up to August 1989, only \$2,205 had been claimed and reimbursed under this cost category.

VERIFICATION

1. Ensured that the costs incurred to date are within the obligations as set out in Grant Amendment No.4.
2. Ensured that all payments made were in accordance with the PIL for that expenditure.

RESULTS

No errors were found in the course of our testing.

CONCLUSION

We recommend that Local Administrative Support costs of \$2,205 be accepted.

7. FERTILIZER DEMONSTRATION EXTENSION

Although the detailed costs applicable under this budget line item were not set out in the grant agreement, PIL No.10 sets out that US\$300,000 has been provided under the Grant to finance the local currency costs of an extension program to promote the use of high analysis fertilizers. The costs claimed under this category included wages and other overheads incurred in the various districts where the project occurred.

VERIFICATION

1. Ensured that costs claimed to date are within the obligations as set out in Grant Amendment No.4.
2. Agree sample of costs claimed to supporting documentation, ensuring that items claimed are allowable under the contract and U.S. law, related to the project, prices appeared reasonable and the method of allocation was reasonable.

RESULTS

1. The costs claimed to date were within the obligation set out in Grant Amendment No.4.
2. As discussed in more detail in Section A.5, it was not possible to vouch the expenditure claimed to supporting documentation as no separate records of the expenditure were maintained.

CONCLUSION

We recommend that the total amounts reimbursed of US\$137,580 be disallowed on the basis that supporting documentation was not maintained.

THE GOVERNMENT OF MALAWI AGRICULTURAL RESEARCH PROJECT AND
AGRICULTURAL RESEARCH AND EXTENSION PROJECT

INDEPENDENT AUDITOR'S REPORT ON INTERNAL ACCOUNTING CONTROLS

We have examined the Statement of The Government of Malawi Agricultural Research Project and Agricultural Research and Extension Project Local Expenditures Reimbursed by USAID for the period from August 28, 1979 to August 31, 1989 and have issued our report thereon dated May 10, 1990. As part of our examination, we made a study and evaluation of the Government of Malawi, Ministry of Agriculture's system of internal control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the Standards for Financial and Compliance Audits contained in the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions (1988 Revision)". The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the statement of local costs reimbursed to the Government of Malawi for the above projects. Consequently, our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole. For the purposes of this report, we have classified the significant internal accounting controls in the following categories:-

Purchases

Cash Payments

Claims Procedures

Our study included all of the control categories listed above.

The Government of Malawi is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the Government are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the Government 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 the Government's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors and irregularities may nevertheless occur and not be detected. Also projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Government of Malawi, Ministry of Agriculture taken as a whole or any of the categories of control identified in the first paragraph. Our study and evaluation disclosed the weaknesses noted in Schedule I to this report. We did not note any other conditions which we believe to be material weaknesses.

Contractor information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of the Ministry of Agriculture in Malawi or USAID and should not be used for any other purpose.



CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

Date: 16 May 1990

MALAWI AGRICULTURAL RESEARCH PROJECT AND
AGRICULTURAL RESEARCH AND EXTENSION PROJECT

AUDIT REPORT ON INTERNAL ACCOUNTING CONTROL

INTERNAL ACCOUNTING CONTROL WEAKNESSES NOTED

1. CLAIMS PROCEDURES

(a) ACCOUNTING RECORDS

i) Observation

For one particular cost category, "Fertilizer Demonstration Extension Project", sufficient accounting records were not maintained to enable a valid claim to be made. This is discussed in more detail in Section B.2.3.

ii) Recommendation

We recommend that adequate accounting records be maintained for all claims made, enabling costs claimable to be properly segregated from other expenses not claimable under the grant. We understand that this recommendation has been implemented with effect from mid-1988.

iii) Mission Response

Mission confirms that the auditors' understanding is true and that the recommendation was implemented in mid 1988.

(b) PROJECT IMPLEMENTATION LETTERS

1) Observation

During the period covered by our audit, USAID/Malawi issued Project Implementation Letters (PIL's) in response to specific requests for funds from the various departments within the Ministry of Agriculture, rather than issuing one PIL for each program per year based on the annual work plans submitted by the departments.

ii) Recommendation

The issuance of one PIL for each program per year would facilitate the Government of Malawi accounting system to submit claims by PIL, as the accounting system at present in operation identifies costs by program on a monthly and yearly basis. We understand that USAID/Malawi has been attempting to implement this recommendation since late 1989.

iii) Mission Response

Mission has already implemented this recommendation and beginning with GOM financial year 1989/90 nearly all of the local costs incurred by GOM are authorized on a yearly basis by a single PIL.

(c) DESK INSTRUCTIONS

i) Observation

No written desk instructions exist for the preparation of USAID claims. Because of the frequency of relocation of Ministry staff, this leads to problems in the timely and accurate preparation of claims.

ii) Recommendation

We recommend that written instructions be drafted for the preparation of USAID claims. In addition, we suggest that adequate training be given to any Ministry personnel involved in the submission of USAID claims.

iii) Mission Response

Mission is in process of having this recommendation implemented as soon as GOM concurrence is received.

(d) FOLLOW UP OF LONG OUTSTANDING PILs

i) Observation

Neither USAID nor the Claims Department Unit at the Ministry of Finance, through which the claims are routed, actively request or pursue claims from the Ministry of Agriculture on long-outstanding PIL's. The result is that funds that have been set aside for a specific project remain unutilized for longer than is necessary. For example, on the Malawi Agricultural Research Project, funds of US\$ 544,593 were de-obligated only in August 1989, when the Project Assistance Completion date was September 30, 1987.

ii) Recommendation

We recommend that the PILs include time-scales within which the claims should be made. If the claims are not made within this time, the funds should be de-obligated.

iii) Mission Response

Mission will incorporate in future PIL's the time limit for submitting the claims. Mission also carries out regular and continuous reviews of projects to ensure timely receipt of claims and/or follow-ups on long outstanding claims. Please note that de-obligation of funds was delayed and/or withheld due to late processing of Deob/Reob action AID/W.

GOVERNMENT OF MALAWI AGRICULTURAL RESEARCH PROJECT AND
AGRICULTURAL RESEARCH AND EXTENSION PROJECT

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS,
REGULATIONS AND PROGRAMS

We have examined the Statement of The Government of Malawi Agricultural Research Project and Agricultural Research and Extension Project Local Expenditures Reimbursed by USAID for the period from August 31, 1979 to August 31, 1989 and have issued our report thereon dated 16 May 1990. Our examination was made in accordance with generally accepted auditing standards and the provisions of "Standards for Audit of Governmental Organizations, Programs, Activities and Functions (1988 Revision)" promulgated by the US Comptroller General, as they pertain to financial and compliance audits, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The Ministries of Agriculture and Finance in Malawi are responsible for the Ministry of Agriculture's compliance with laws, regulations, and terms and conditions of the Federal Award Agreements.

In connection with our examination, we found that for the items tested which are identified in Schedule I of this report, the Ministry of Agriculture in Malawi complied with laws, regulations and the terms and conditions of the Federal Award Schemes.

We found that the organization was not complying with the terms and conditions of the agreement in respect of those items in Schedule II of this report.

Further, with respect to the items not tested by us, nothing came to our attention to indicate that the Ministry of Agriculture in Malawi had not complied with laws, regulations and the terms and conditions of the Federal Award Agreements. However, it should be noted that our examination was not directed primarily toward obtaining knowledge of non-compliance with such requirements, terms and conditions.

Contractor information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the Ministry of Agriculture in Malawi or USAID and should not be used for any other purpose.


CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

Date: 16 May 1990

GOVERNMENT OF MALAWI AGRICULTURAL RESEARCH PROJECT AND
AGRICULTURAL RESEARCH AND EXTENSION PROJECT

AUDIT REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND PROGRAMS
ITEMS OF COMPLIANCE WITH LAWS, REGULATIONS AND PROGRAMS

1. Spending levels for each line item in the budget were in accordance with the terms and conditions of Grant Amendment No.5 in the case of Grant No.79-612-10, and Grant Amendment No.4 in the case of Grant No.85-612-G-04.

2. No cost on any line item of either Grant was in excess of the provisions of the relevant Grant Amendment.

3. SPECIFIC PROVISIONS COMPLIED WITH

(a) Grant No.79-612-10 (Project No.612-0202)

I. Project Assistance Completion Date

All requests for disbursement were made prior to nine months following the Project Assistance Completion Date.

II. Construction

All construction activities financed under the Grant were agreed to by USAID prior to disbursement of funds.

III. Pesticides

We are not aware of any breach of any USAID regulations with regard to the procurement and use of pesticides by the Grantee.

IV. Disbursements of Local Currency

We are not aware of any breach of the requirements of the Grant Agreement in respect of disbursements for local currency costs by the Grantee.

V. Rates of Exchange

We are not aware of any breach of the requirements of the Grant Agreement in respect of the conversion of funds introduced into the Republic of Malawi.

VI. Utilization of Goods and Services

We are not aware of any breach of the requirements of the Grant Agreement in respect of the utilization of goods and services by the Grantee.

VII. Reports, Records, Inspections, Audit

1. The Grantee has furnished to USAID such information and reports relating to the Project and to the Agreement as USAID has requested.
2. The Grantee has maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and the Agreement adequate to show the receipt and use of goods and services acquired under the Grant.
3. The books and records of the Grantee are subject to annual audit by the Government Auditor.
4. The Grantee has made available records for examination and audit by Peat Marwick as USAID Representatives.

VIII. Completeness of Information

We are not aware of any breach of the requirements of the Grant Agreement in respect of the completeness of information by the Grantee.

IX. Other Payments

We are not aware of any circumstances whereby any official of the Grantee has received payment in connection with the procurement of goods and services financed under the grant except fees, taxes or similar payments legally established in the country of the Grantee.

X. Eligibility Date

*

All local goods and services financed under the Grant were procured subsequent to the date of the Agreement.

XI. Reasonable Price

We are not aware of any breach of the requirements of the Grant Agreement in respect of reasonable prices by the Grantee.

XII. Refunds

(i) No costs have been disallowed prior to this report and so no refunds have been made.

(ii) No interest or other earnings were earned on local Grant Funds disbursed.

(b) Grant No.85-612-G-04 (Project No.612-0215)

I. Project Assistance Completion Date

As the Grant period is still current, the Grant requirements with regard to the Project Assistance Completion Date do not yet apply.

II. Disbursement of Local Currency

We are not aware of any breach of the requirements of the Grant Agreements in respect of disbursement of local currency by the Grantee.

III. Rate of Exchange

We are not aware of any breach of the requirements of the Grant Agreement in respect of the conversion of funds introduced into the Republic of Malawi.

IV. Project Implementation Letters

All local costs disbursed have been based on the provisions of the relative Project Implementation Letters.

V. Utilization of Goods and Services

We are not aware of any breach of the requirements of the Grant Agreement in respect of the utilization of goods and services by the Grantee.

VI. Reports, Records, Inspection, Audit

(1) The Grantee has furnished to USAID such information and reports relating to the Project and to the Agreement as were reasonably requested by USAID.

(2) With the exception of the items noted on Schedule II the Grantee has maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to the Agreement adequate to show, without limitation the receipt and use of goods and services acquired under the Grant.

(3) Such books and records are subject to annual audit by the Government auditor, in accordance with generally accepted auditing standards.

(4) The Grantee has made available records for examination and audit by Peat Marwick as USAID representatives.

VII. Completeness of Information

We are not aware of any breach of the requirements of the Grant Agreement in respect of the completeness of information given by the Grantee.

VIII. Other Payments

We are not aware of any circumstances whereby any official of the Grantee has received payment in connection with the procurement of goods and services financed under the Grant except fees, taxes, or similar payments legally established in the country of the Grantee.

IX. Eligibility Date

All local goods and services financed under the Grant were procured subsequent to the date of the Grant.

X. Reasonable Price

We are not aware of any breach of the requirements of the grant agreement in respect of reasonable prices by the Grantee.

XI. Termination

As the Grant is still current the termination provisions are not as yet applicable

XII. Refunds

- (i) No costs have been disallowed prior to this report and so no refunds have been made.
- (ii) No interest or other earnings were earned on local Grant Funds disbursed.

GOVERNMENT OF MALAWI AGRICULTURAL RESEARCH PROJECT AND
AGRICULTURAL RESEARCH AND EXTENSION PROJECT

AUDIT REPORT ON COMPLIANCE WITH LAWS, REGULATIONS, AND PROGRAMS

ITEMS OF NON-COMPLIANCE WITH LAWS, REGULATIONS AND PROGRAMS

1. RECORDS

As discussed in more detail in Section B.2.3. the Grantee did not maintain books and records relating to the cost category "Fertilizer Demonstration Extension Program" under Grant No. 85-612-6-04 adequate to show the use of goods and services acquired under the Grant. These costs have been recommended for disallowance.

SUMMARY OF FINANCIAL STATUS OF GRANT NO.79-612-10 (PROJECT NO.612-0202)
AND GRANT NO.85-612-G-04 (PROJECT NO.612-0215)

(All amounts are in US Dollars)

Project No. Element No.	Project Title Element Description	Obligations to Date	Earmarks to Date	Commitments to Date	Expenditure to Date	Local Expenditure to Date
612-0202	Agricultural Research					
01	Technical Assistance	\$6,021,938	\$6,021,937	\$6,021,937	\$6,021,937	-
02	Training	256,766	256,765	256,765	256,765	-
04	Construction	1,889,873	1,889,872	1,889,872	1,889,872	\$1,889,872
05	Incremental Recurrent Cost	272,552	272,553	272,553	272,553	272,553
06	Evaluations	14,279	14,279	14,279	14,279	-
		-----	-----	-----	-----	-----
		\$8,455,408	\$8,455,406	\$8,455,406	\$8,455,406	\$2,162,425
		-----	-----	-----	-----	-----
612-0215	Agricultural Research and Extension					
01	Technical Assistance	\$8,825,000	\$8,794,705	\$7,806,397	\$4,454,992	-
02	Training	4,606,000	3,783,087	3,783,087	1,327,040	\$ 21,303
03	Commodities	537,000	525,549	525,549	395,733	-
04	Administrative Support	532,000	114,800	114,800	2,205	2,205
05	Fertilizer Demonstration	300,000	137,580	137,580	137,580	137,580
07	Evaluation/ Studies	200,000	154,014	127,267	7,022	-
		-----	-----	-----	-----	-----
		\$15,000,000	\$13,509,735	\$12,494,680	\$6,324,572	\$ 161,088
		-----	-----	-----	-----	-----
TOTALS		\$23,455,408	\$21,965,141	\$20,950,086	\$14,779,978	\$2,323,513
		=====	=====	=====	=====	=====

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ACTION: AIE-3 INFO: ECON POL/RLO

Appendix 2
Page 1 of 5

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FCR RIG/A/N T. JARMAN AND RPMC A. HULLIUNG

E.O. 12356: 1/A

SUBJECT: DRAFT NON-FEDERAL AUDIT REPORT ON MALAWI AGRICULTURAL RESEARCH AND EXTENSION PROJECT (MARE) - 612-0215

REFS: (A) JARMAN/PEASLEY MEMO OF 2/9/90
- (B) AMIN/JARMAN TELECON OF 2/15/90

USAID/FFI/1
C&R

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1. AS REQUESTED IN REF (A) MEMO, MISSION PROVIDES FOLLOWING COMMENTS ON SUBJECT DRAFT AUDIT REPORT. MISSION BELIEVES THAT THE RECOMMENDATIONS ON QUESTIONED AND DISALLOWED COSTS ARE BASED ON INCOMPLETE AUDIT. MISSION ALSO EXPRESSES SOME CONCERNS ABOUT THE IMPLICATIONS OF RECOMMENDED ACTIONS (IF THEY HAVE TO BE IMPLEMENTED) ON THE IMPLEMENTATION OF THE AID FINANCED ON-GOING AND FUTURE PROGRAMS, AND POSSIBLY ON AID/GOM RELATIONSHIPS.

2. PLEASE MAKE FOLLOWING EDITORIAL CORRECTIONS IN THE REPORT:

- (A) UNDER PARAGRAPH 1 (BACKGROUND) OF INTRODUCTION SECTION OF THE REPORT:

- EXPIRY DATE FOR MARE PROJECT (612-0215) SHOULD READ SEPTEMBER 30, 1992 INSTEAD OF SEPTEMBER 30, 1991.

- TOTAL FUNDING FOR BOTH GRANTS SHOULD READ U.S. DOLS 23.4 MILLION INSTEAD OF 23.3 MILLION. SEE TOTALS ON APPENDIX I OF THE REPORT.

- (B) ON APPENDIX I THE AMOUNT AGAINST PROJECT ELEMENT NO. 02 UNDER BENCHMARK TO DATE COLUMN OF PROJECT 612-0215 SHOULD READ 5,793,222 INSTEAD OF 784,157.

3. COMMENTS ON QUESTIONED AND DISALLOWED COSTS:

- (A) PROJECT NO. 612-0202

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- DISALLOWANCE OF DOLS 115,051 FOR CONSTRUCTION: THIS DISALLOWANCE IS BASED ON INCOMPLETE FILES AT RPMC/NAIROBI. THE REPORT STATES

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THAT IT IS POSSIBLE THAT THE DIFFERENCE OF THIS AMOUNT IS DUE TO ACCOUNTING POSTING ERRORS AT RFMC/NAIROBI. BUT IT WAS NOT POSSIBLE TO VERIFY THIS BECAUSE RFMC/NAIROBI COULD NOT LOCATE ALL THE CLAIMS RELATING TO THE CONSTRUCTION COSTS REIMBURSED. FURTHER REVIEW OF RFMC/NAIROBI ACCOUNTING RECORDS DISCLOSED THAT THIS DIFFERENCE WAS ATTRIBUTABLE TO INCORRECT POSTING RATHER THAN OVER-DISBURSEMENTS. THE TOTAL DISBURSEMENTS OF DOLS 115,653 SHOULD HAVE BEEN POSTED TO CONSTRUCTION PILE NO. 3 (DOLS 104,426), 5 (DOLS 2,128), AND 6 (DOLS 9,100). THE DISALLOWANCE OF DOLS 115,653 SHOULD, THEREFORE, BE DROPPED FROM THE REPORT.

- DISALLOWANCE OF DOLS. 8,665 FOR INCREMENTAL RECURRENT COSTS: TO ESTABLISH THE VALIDITY OF THE BASIS USED BY AUDITORS IN CALCULATION OF THIS DISALLOWANCE, EXPENDITURES FOR YEAR 1983 AND 1984 SHOULD BE REVIEWED FOR SIMILAR YEAR-END ADJUSTMENTS AS REIMBURSEMENTS OF THESE EXPENSES WERE MADE AT VARYING PERCENTAGES. THESE ADJUSTMENTS MAY EITHER ADD TO OR OFFSET THE DISALLOWED AMOUNT. VIRTUALLY ALL OF THE MISSION VOUCHERS HAVE NOW BEEN LOCATED IN RFMC/NAIROBI AND ARE AVAILABLE FOR AUDIT REVIEW. IT IS SUGGESTED THAT THE RECOMMENDATION FOR THIS DISALLOWANCE BE EITHER DROPPED FROM THE REPORT OR DEFERRED UNTIL THIS REVIEW IS COMPLETED AND VALIDITY OF THE CALCULATIONS OF THE DISALLOWANCE ESTABLISHED.

- QUESTIONED COSTS OF DOLS 235,531 FOR INCREMENTAL RECURRENT COSTS: THESE COSTS ARE QUESTIONED SINCE AT THE TIME OF COMPLETION OF AUDIT FIELDWORK, RFMC/NAIROBI HAD NOT BEEN ABLE TO LOCATE THE PAID VOUCHERS. VIRTUALLY ALL OF THE MISSING VOUCHERS HAVE NOW BEEN LOCATED AND ARE AVAILABLE IN RFMC/NAIROBI FOR AUDIT REVIEW. IT IS SUGGESTED THAT THE RECOMMENDATION ON QUESTIONED COSTS BE DROPPED FROM THE REPORT OR DEFERRED UNTIL THIS REVIEW IS COMPLETED.

- (B) PROJECT NO. 612-0215

- DISALLOWANCE OF DOLS 137,523 FOR FERTILIZER DEMONSTRATION: MISSION WAS VERY MUCH AWARE OF THE FACT THAT THERE WERE NO SEPARATE EXPENDITURE RECORDS MAINTAINED FOR THESE COSTS, NOR WAS IT PRACTICAL FOR THE MINISTRY OF AGRICULTURE (MOA) TO SEGREGATE THESE COSTS

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AND TO PROVIDE SUPPORTING DOCUMENTS. DUE TO DELAY ON PART OF USAID IN FORMALLY COMMUNICATING WITH THE GOM ON FUNDING AUTHORIZATION OF THESE COSTS AND ANY CLEAR WRITTEN INSTRUCTIONS ON SUBMISSION OF CLAIMS AND SUPPORTING DOCUMENTS FOR REIMBURSEMENT, THE MOA DID NOT REALIZE THE REQUIREMENT FOR MAINTAINING SEPARATE EXPENDITURE RECORDS AND SEGREGATING THESE COSTS FROM OTHER EXPENDITURES. BY THE TIME MOA REALIZED THIS REQUIREMENT, THE MOA HAD ALREADY INCURRED AND RECORDED THESE COSTS WITH OTHER EXPENDITURES WITH THE UNDERSTANDING THAT THESE COSTS WOULD BE REIMBURSED BY A.I.P. BASED ON A CERTIFIED STATEMENT OF ESTIMATED ACTUAL EXPENDITURES. AS IT WAS IMPRACTICAL TO SEGREGATE THESE COSTS FROM OTHER EXPENDITURES OF SEVERAL DISTRICTS, AND IN VIEW OF TIME AND COST INVOLVED IN OBTAINING THIS DATA, IT WAS AGREED THAT USAID AND THE GOM WOULD LOOK INTO POSSIBILITY OF AN ALTERNATIVE METHOD OF REIMBURSEMENT. THE MOA AND USAID, THEREFORE, HELD A SERIES OF MEETINGS AND DISCUSSIONS IN 1986 TO ARRIVE AT AN ACCEPTABLE ALTERNATIVE METHOD OF REIMBURSEMENT OF THESE COSTS. DURING THESE DISCUSSIONS, IT WAS AGREED BY BOTH MOA AND USAID THAT, FOR ONE TIME REIMBURSEMENT PURPOSES, A REASONABLE AND CONSERVATIVE PROPORTION OF TOTAL ACTUAL EXPENDITURES INCURRED BY EACH DISTRICT FOR YEARS 1985-1987 ON ITEMS RELEVANT TO THIS PROGRAM WOULD BE ACCREDITED TO THIS PROGRAM.

LETTER DATED DECEMBER 15, 1986 FROM THE SECRETARY FOR AGRICULTURE TO THE SECRETARY TO THE TREASURY (COPY IS AVAILABLE IN RIG/A/N AUDIT FILE). REGRETTABLY, THE MISSION DID NOT COMMUNICATE THIS UNDERSTANDING AND AGREEMENT IN WRITING EITHER IN P/L NO. 10 (COPY AVAILABLE IN RIG/A/N AUDIT FILE) OR BY OTHER DOCUMENT. HOWEVER, IT WAS THE FULL INTENT OF USAID TO MAKE A ONE TIME REIMBURSEMENT OF THESE COSTS BASED ON A PROPORTION OF TOTAL ACTUAL EXPENDITURES. AGAIN, THIS IS EVIDENCED FROM THE ABOVE-REFERENCED LETTER FROM THE SECRETARY FOR AGRICULTURE. WITH THIS AGREEMENT AND UNDERSTANDING, THE MINISTRY SPENT CONSIDERABLE TIME AND EFFORTS OVER A PERIOD OF A YEAR TO OBTAIN TOTAL ACTUAL EXPENDITURES DATA FROM EACH DISTRICT AND TO COMP UP WITH PROPORTIONATE COSTS ATTRIBUTED TO THIS PROGRAM. THE BASIS FOR THE COMPUTATION WAS FILES, RECORDS, INFORMATION, AND THE MINISTRY AND USAID PROJECT OFFICIALS KNOWLEDGE OF THE COSTS INCURRED TO CARRY OUT THE FERTILIZER DEMONSTRATION PROGRAM.

IN VIEW OF ABOVE EXPLANATION, AND AS THIS PROGRAM WAS AN ESSENTIAL ACTIVITY OF MAED PROJECT, MISSION BELIEVES THAT IT IS NOT APPROPRIATE FOR A.I.D. TO REQUEST GOM TO RECOVER THESE COSTS; NOR WOULD IT BE IN THE BEST INTERESTS OF A.I.D. TO DO SO. IT IS, THEREFORE, RECOMMENDED THAT THIS CLAIM BE TREATED FROM THE REPORT.

COMMENTS ON DISCREPANCIES IN INTERNAL ACCOUNTING CONTROL SYSTEMS - CONTINUED:

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- (A) ACCOUNTING RECORDS: MISSION CONFIRMS THAT THE AUDITOR'S STATEMENT IS CORRECT AND THAT THE RECOMMENDATION WAS IMPLEMENTED IN 2011-12.

- (B) PROJECT IMPLEMENTATION LETTERS: MISSION HAS ALREADY IMPLEMENTED THIS RECOMMENDATION AND BEGINNING WITH GCM FINANCIAL YEAR 1989/90 NEARLY ALL OF THE LOCAL COSTS INCURRED BY GCM ARE AUTHORIZED ON A YEARLY BASIS BY A SINGLE PIL.

- (C) PSPK INSTRUCTIONS: MISSION IS IN PROCESS OF HAVING THIS RECOMMENDATION IMPLEMENTED AS SOON AS GCM CONCURRENCE IS RECEIVED.

- (D) FOLLOW-UP ON LONG OUTSTANDING PILS: MISSION WILL INCORPORATE IN FUTURE PILS THE TIME LIMIT FOR SUBMITTING THE CLAIMS. MISSION ALSO CARRIES OUT REGULAR AND CONTINUOUS REVIEWS OF PROJECTS TO ENSURE TIMELY RECEIPT OF CLAIMS AND/OR FOLLOW-UPS ON LONG OUTSTANDING CLAIMS. PLEASE NOTE THAT DEOBLIGATION OF FUNDS UNDER PROJECT 612-0222 WAS DELAYED AND/OR WITHHELD DUE TO LATE PROCESSING OF DEOB/REOB ACTION BY AID/W.

5. GENERAL COMMENTS:

- (A) MISSION BELIEVES THAT RECOMMENDATIONS FOR DISALLOWANCE OF DOLS 124, 512 AND QUESTIONING DOLS

238,531 UNDER PROJECT 612-4242 SHOULD BE DROPPED, OR A FURTHER REVIEW BE MADE TO VERIFY THE REPORTED EXPENDITURES PRIOR TO SUCH RECOMMENDATIONS. THE TOTAL AMOUNT OF DOLS 359,849 IS QUITE LARGE, IN PARTICULAR BY MALAWI BUDGET STANDARDS, AND WE BELIEVE IT IS UNJUSTIFIED TO OFFICIALLY DISALLOW AND/OR QUESTION SUCH A LARGE AMOUNT WITHOUT FURTHER REVIEW AND FULL EFFORTS TO OBTAIN REQUIRED DOCUMENTATION AND TO ESTABLISH THE VALIDITY OF SUCH DISALLOWANCES. WE, THEREFORE, URGE THAT REVIEW BE COMPLETED BEFORE FINALLY RECOMMENDING SUCH DISALLOWANCES. NONETHELESS, ALTHOUGH RECOMMENDING FULL REVIEW PRIOR TO MAKING RECOMMENDATIONS, WE DO QUESTION WHETHER SUCH REVIEW EFFORTS WILL BE JUSTIFIED IN VIEW OF LIKELY ADDITIONAL COST AND TIME INVOLVED.

(B) GIVEN TIME LAPSE, IT IS ALSO DOUBTFUL WHETHER USAID CAN TECHNICALLY PURSUE REFUNDS BASED ON LACK OF SUPPORTING DOCUMENTATION. NORMALLY, PROAG STANDARD PROVISIONS REQUIRE THE MAINTENANCE OF BOOKS AND RECORDS FOR THREE YEARS AFTER THE LAST DISBURSEMENT, AND RFMC NORMALLY HOLD VOUCHER COPIES FOR NO MORE THAN FOUR YEARS.

(C) RE PAGE 2, THIRD PARA PLEASE NOTE THAT A.I.D. HAS ALWAYS REQUIRED THE SUBMISSION OF SUPPORTING DOCUMENTATION IF THE GRANTEE'S ACCOUNTING SYSTEM WAS DEEMED INADEQUATE. IF SYSTEM WAS JUDGED TO BE ADEQUATE, SUPPORTING DOCUMENTATION WAS TO BE TESTED PERIODICALLY. THE 1984 PAYMENT VERIFICATION ISSUANCE COMPLEMENTED AND FURTHER ARTICULATED THIS POLICY. WHEN IT WAS FOUND OUT IN 1988 THAT THE MINISTRY OF AGRICULTURE'S SYSTEM WAS INADEQUATE, MISSION CHANGED THE PROCEDURES FOR SUBMISSION OF REIMBURSEMENT CLAIMS AND REQUIRED GOM TO SUBMIT SUPPORTING DOCUMENTS FOR ALL FUTURE CLAIMS. (REFER PIL NO. 15 COPY OF WHICH IS AVAILABLE IN RIG/A/N AUDIT FILE). IT SHOULD ALSO BE NOTED THAT ALL WEAKNESSES NOTED IN THE MOA ACCOUNTING SYSTEM WERE ALSO CORRECTED IN MID-1988.

6. REQUEST RIG/A/N TO TAKE FURTHER ACTIONS AND/OR CHANGES IN THE AUDIT REPORT AS EXPLAINED IN PARA 2, 3, 4 AND 5 ABOVE.

7. PLEASE ADVISE. TRAIL

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E.O. 12356: N/A
SUBJECT: DRAFT NON-FEDERAL AUDIT REPORT ON MALAWI AG
RESEARCH AND EXT PROJECT (MARE)

REF: LILONGWE 00859

1. BASED ON REFTEL GARBLED MESSAGE RIG/N HAS PROVIDED
RFMC WITH COPY OF SUBJECT DRAFT.

2. ASSUMING THAT USAID CAN RESPOND TO FINDINGS OF
CURRENT PROJECT (0215), OUR COMMENTS ARE LIMITED TO OLD
PROJECT (0202).

3. SPECIFIC COMMENTS ARE:

- (A) ON PAGE 12-13, CONSTRUCTION COSTS RECOMMENDED
FOR DISALLOWANCE IN THE AMOUNT OF DOLS 115,653 IS NOT
APPROPRIATE AND SHOULD BE DROPPED FROM REPORT. AUDIT
RATIONALE FOR THE RECOMMENDATION WAS THAT RFMC RECORDS
SHOWED DISBURSEMENTS IN EXCESS OF THE AMOUNT OF PIL
NO. 4. REVIEW OF THE RECORDS DISCLOSED THAT DIFFERENCE
WAS ATTRIBUTABLE TO INCORRECT POSTINGS RATHER THAN
OVER-DISBURSEMENTS. DISBURSEMENTS TOTALING DOLS 115,653
SHOULD HAVE BEEN POSTED TO CONSTRUCTION PIL NOS.
3(DOLS 104,425), 5(DOLS 2,128) AND 6(DOLS 9,100).

- (B) ON PAGES 12-13, DOLS 8,665 OF MISCELLANEOUS
RECURRENT COSTS IS RECOMMENDED FOR DISALLOWANCE. RFMC
ASSUMES USAID CAN REVIEW MOA RECORDS TO VERIFY VALIDITY
AND CALCULATION. IF DISALLOWANCE IS FOUND TO BE VALID,
CALCULATION COULD BE COMPLICATED AS REIMBURSEMENTS
DURING 1983 AND 1984 WERE MADE AT VARYING PERCENTAGES.

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ALSO, IF FOUND TO BE VALID, OTHER YEAR ENDS SHOULD BE REVIEWED FOR ADJUSTMENTS WHICH WOULD EITHER ADD TO OR OFFSET THE DISALLOWED AMOUNT.

- (C) ON PAGES 7, 12 AND 13 DOLS 235,531 IN INCREMENTAL RECURRENT COSTS IS QUESTIONED SINCE AT TIME OF COMPLETION OF AUDIT FIELDWORK, RFMC HAD NOT BEEN ABLE TO LOCATE PAYMENT VOUCHERS. CURRENTLY, VIRTUALLY ALL OF THE MISSING VOUCHERS HAVE BEEN LOCATED AND ARE AVAILABLE FOR AUDIT REVIEW.

4. GENERAL COMMENTS ARE:

- (A) GIVEN TIME LAPSE, WE QUESTION WHETHER USAID COULD TECHNICALLY PURSUE REFUNDS BASED ON LACK OF SUPPORTING DOCUMENTATION. NORMALLY, STANDARD PROVISIONS REQUIRE THE MAINTENANCE OF BOOK AND RECORDS FOR THREE YEARS AFTER THE LAST DISBURSEMENT. IN ADDITION, HAD RFMC NOT BEEN REMISS, NONE OF THE VOUCHER COPIES WOULD HAVE BEEN AVAILABLE FOR AUDIT EXAMINATION AS GUIDANCE CALLS FOR DESTRUCTION AFTER FOUR YEARS.

- (B) PAGE 2, THIRD PARA IS AT BEST, INCOMPLETE. AID HAS ALWAYS REQUIRED THE SUBMISSION OF SUPPORTING DOCUMENTATION IF THE GRANTEE'S ACCOUNTING SYSTEM WAS DEEMED INADEQUATE. IF SYSTEM WAS JUDGED TO BE ADEQUATE, SUPPORTING DOCUMENTATION WAS TO BE TESTED PERIODICALLY. THE 1984 PAYMENT VERIFICATION ISSUANCE COMPLIMENTED AND FURTHER ARTICULATED THIS POLICY.

5. PLEASE ADVISE IF ADDITIONAL INFORMATION OR COMMENTS ARE REQUIRED. HEMPSTONE#"

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