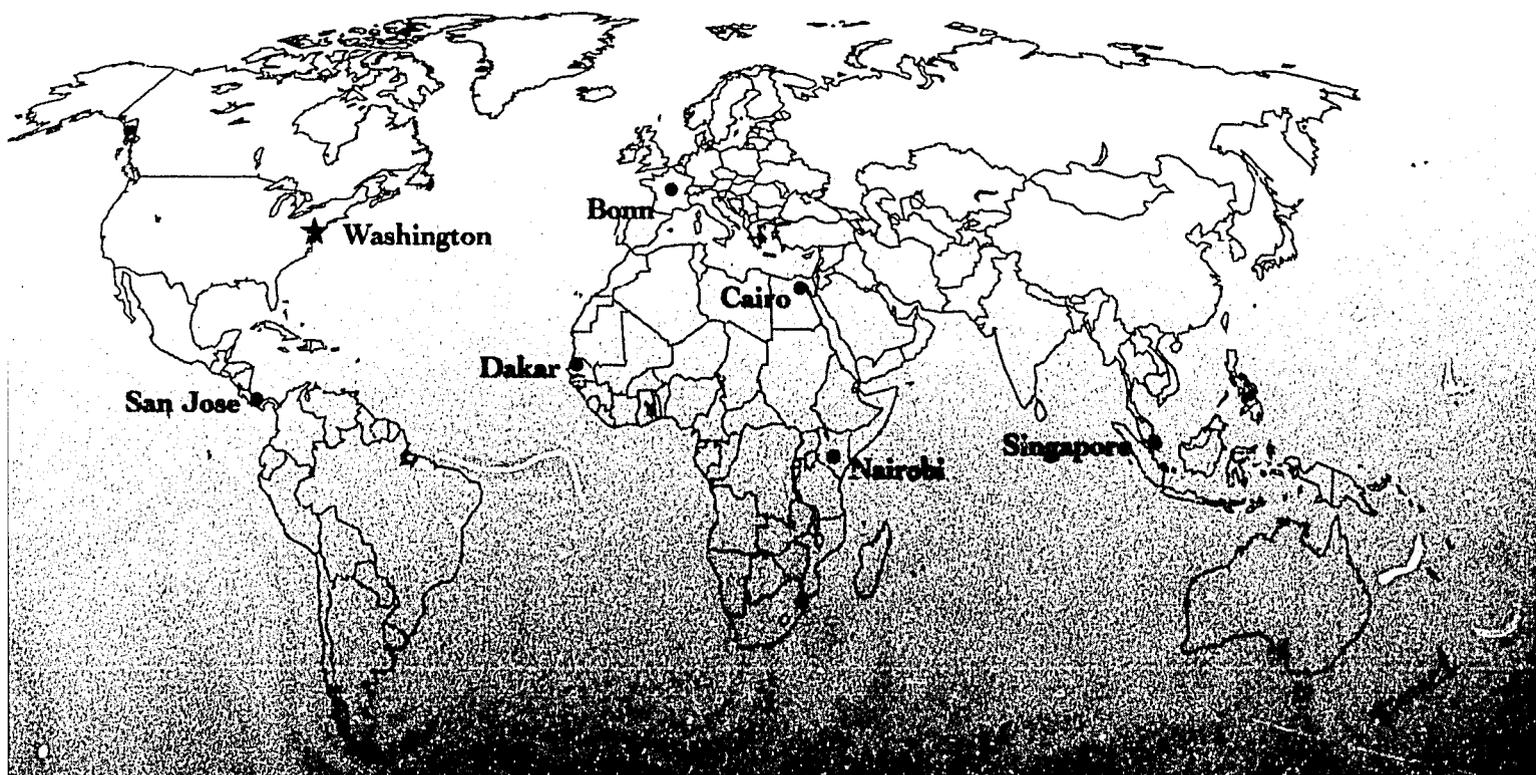


**Regional Inspector General for Audit
Dakar**

**Audit of the International Executive Services Corps
under the Assessing International Markets Project
(No. 608-0219), from July 24, 1992 to June 30, 1994**

**Audit Report No. 7-608-95-012-N
April 14, 1995**



UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

UNITED STATES ADDRESS
RIG / DAKAR
AGENCY FOR INTERNATIONAL
DEVELOPMENT
WASHINGTON, D.C. 20521 - 2130

INTERNATIONAL ADDRESS
RIG / DAKAR
C/° AMERICAN EMBASSY
B.P. 49 DAKAR SENEGAL
WEST AFRICA

April 14, 1995

MEMORANDUM

To: Michael Farbman, Director, USAID/Morocco

From: *Thomas B. Anklewich*
Thomas B. Anklewich, RIG/A/Dakar

Subject: Audit of the International Executive Services Corps under the Assessing International Markets Project (No. 608-0219), from July 24, 1992 to June 30, 1994 (Audit Report No. 7-608-95-012-N)

The attached report, prepared by the non-Federal audit firm, Price Waterhouse of Casablanca, presents the results of a financial audit of the International Executive Services Corps under the Assessing International Markets Project (No. 608-0219), from July 24, 1992 to June 30, 1994.

On July 21, 1992, the United States Agency for International Development (USAID), through its Mission in Morocco, approved the Assessing International Markets Project (No. 608-0219) which established \$10.4 million in grant assistance to the Moroccan private sector. This grant aimed to improve the competitiveness of Moroccan companies in international markets, particularly in the United States, by encouraging these companies to adopt new technologies, increase production efficiency, attract foreign investment, and increase their exports.

To implement the project, USAID entered into a five year \$10.4 million cooperative agreement with the International Executive Services Corps (IESC) on July 24, 1992. This agreement expands on the activities of a previous \$4 million agreement with IESC which was financed by USAID/Morocco from June 1986 to June 1992 under the Private Sector Export Promotion Project and has four project components: 1) the Volunteer Executive Technical Assistance Program; 2) the Business Development Services Program; 3) the Moroccan-U.S Tourism Program; and 4) the IESC Management Program.

In addition to the USAID funds, IESC planned to have a private sector contribution through client fee income under the Volunteer Executive Technical Assistance Program of \$1.2 million and an in-kind volunteer executive contribution of \$2.5 million. As of June 30, 1994, IESC records showed disbursements from USAID funding of \$3,080,583.

Price Waterhouse performed the financial audit in accordance with U.S. Government Auditing Standards of the expenditures made by IESC to determine whether the Fund Accountability Statement for the period July 24, 1992 to June 30, 1994 was fairly presented and whether IESC complied with applicable laws, regulations, and agreements that may have had a material effect on the Fund Accountability Statement. In carrying out this financial audit, the non-Federal auditor obtained an understanding of IESC's internal accounting controls over the USAID funds to plan the audit and to determine the nature, timing and extent of tests to be performed.

The non-Federal auditor found that the Fund Accountability Statement was fairly presented, except for uncertainty regarding the expenses incurred at the IESC Head Office in the United States; and other ineligible and unsupported expenditures totaling \$48,011. In obtaining an understanding of the internal control structure, the auditor reported weaknesses such as the lack of a proper double entry accounting system and an inadequate segregation between accounting and other administrative duties. However, the auditor did not consider these weaknesses as material. Finally, in testing for compliance with applicable laws, regulations and agreements, the auditor stated that the IESC complied in all material respects.

In its response to the draft audit report, USAID/Morocco stated that IESC Head Office costs are audited in the United States and provided RIG/A/Dakar with a copy of IESC Headquarter's 1993 audit report which had an unqualified opinion. The Mission did not comment on the \$48,011 ineligible and unsupported expenditures.

The non-Federal audit report contains sixteen findings and recommendations that should be implemented by IESC and USAID/Morocco. The following recommendation has been included in the Office of the Inspector General's recommendation follow-up system.

Recommendation No. 1: We recommend that USAID/Morocco resolve the questioned costs of \$48,011 (\$6,284 unsupported) and recover those costs determined to be unallowable or unsupported.

Recommendation No. 1 is considered unresolved until USAID/Morocco advises RIG/A/Dakar of its official determination of the sustainability of the unsupported and ineligible questioned costs. For any amounts which USAID/Morocco determines to be not sustained, RIG/A/Dakar will close that portion of the recommendation upon receipt of USAID/Morocco's determination and any evidence required to support the position taken. For those amounts which USAID/Morocco determines to be sustained, that portion of the

recommendation will be closed when such questioned costs are recovered and the evidence thereof is provided to RIG/A/Dakar. Such evidence may include a copy of: a bill for collection, a document showing reimbursement, or a document showing that the amount questioned was offset against amounts due by USAID.

Please advise RIG/A/Dakar within 30 days of receipt of this report of any actions planned or taken to close the above recommendation.



**UNITED STATES AGENCY FOR INTERNATIONAL
DEVELOPMENT (USAID)**

**AUDIT OF THE INTERNATIONAL EXECUTIVE SERVICES
CORPS UNDER THE ASSESSING INTERNATIONAL MARKETS
PROJECT N° 608-0219 FOR THE PERIOD FROM JULY 24, 1992
TO JUNE 30, 1994.**



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Price Waterhouse



I- TRANSMITTAL LETTER AND SUMMARY

Mr. Thomas B. Anklewich
Regional Inspector
General for Audit
USAID/Dakar
Senegal

Dear Sir,

This report represents the results of our assignment in respect of the Audit of the International Executive Service Corps under the Assessing International Markets (AIM) Project (N°.608-0219) from July 24, 1992 through June 30, 1994.

A. BACKGROUND

On July 21, 1992, the United States Agency for International Development (USAID), through its Mission in Morocco approved the Assessing International Markets Project (N°.608-0219), which established \$10.4 million in grant assistance to the Moroccan private sector, in order to assist Moroccan companies successfully manage entry and their competitiveness in international markets, particularly the United States Market. This assistance is to be accomplished by increasing Moroccan companies' abilities to adapt new technologies, produce more efficiently, attract foreign investment, export, contribute greater value added, and create jobs.

To implement the projet, USAID entered into a five year \$10.4 million Cooperative Agreement with the International Executive Services Corps (IESC) on July 24, 1992. This Cooperative Agreement expands on the activities of a previous \$4.02 million agreement with IESC which was financed by USAID/Morocco from June 1986 to June 1992 under the Private Sector Export Promotion Project. The cooperative Agreement under the AIM project is to fund costs incurred to implement the four project components:

1. The Volunteer Executive Technical Assistance (VETA) Program.
2. The Trade and Investment Services (TIS) Program. The term TIS was replaced by Business Development Services (BDS).
3. The Moroccan-U.S. Tourism Promotion (MUST) Program.
4. The IESC Management (IESCM) Program.



In addition to the \$10.4 million in USAID funds to be provided over the life of the Cooperative Agreement, there is a private sector contribution through client fee income under the VETA program of \$1,192,500 and an in-kind volunteer executive contribution of \$2,471,630.

The financial audit performed under this scope of work covers all IESC Morocco's Programs for the period from July 24, 1992 to June 30, 1994.

B. AUDIT OBJECTIVES AND SCOPE

1. Audit Objectives

The audit was performed in accordance with generally accepted auditing standards, U.S. Government audit standards as set forth in the Controller General's Government Auditing Standards, and guidelines contained in the Office of the Inspector General's Guide for Financial Audits Contracted by the Agency for International Development.

The objectives of this financial audit were to:

- a. determine the reasonableness, propriety and allocability of expenditures made by IESC Morocco from the Grant during the period July 24, 1992 to June 30, 1994 and then express an opinion on whether the Fund Accountability Statement was fairly presented in all material respects, in conformity with generally accepted accounting principles;
- b. obtain a sufficient understanding of IESC Morocco's internal control structure and then review and evaluate this structure to determine the nature, timing, and extent of tests to be performed in order to form an opinion on the Fund Accountability Statement and then report on the internal control structure identifying (1) the scope of the auditor's work in obtaining an understanding of the internal control structure and in assessing the control risk, (2) IESC Morocco's significant internal controls including the controls established to ensure compliance with laws and regulations that could have a material impact on the Fund Accountability Statement, and (3) the reportable conditions, including the material weaknesses identified as a result of the auditor's work in understanding and assessing the control risk; and
- c. perform tests of IESC Morocco's compliance with applicable laws, regulations, binding policies and procedures, and applicable agreements as part of obtaining reasonable assurance about whether the Fund Accountability Statement was free of material misstatement and then report on the results of the compliance testing.



These tests were also performed to determine whether IESC Morocco complied - in all material respects - with the Corporate Agreement terms, laws, binding policies, and regulations and express positive assurance on those items tested and negative assurance on those items not tested.

In testing for compliance, specific steps and procedures were designed to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the Fund Accountability Statement.

2. Audit Scope

In addition to the Pre-audit Steps set out in our scope of work document our work included but was not limited to the following procedures:

Fund Accountability Statement (FAS)

1. Review of disbursements made by IESC Morocco and Stamford, identifying and quantifying costs. Any costs not supported with adequate documentation or not in accordance with applicable Corporate Agreement terms were questioned and included as findings in the reports on internal control and compliance.
2. Review of the general ledger and project ledger to determine whether costs incurred were properly recorded.
3. Review of the bank accounts and the controls on those bank accounts.
4. Ensuring that all project funding received by IESC Morocco from USAID was appropriately recorded in IESC Morocco's accounting records.
5. Determining whether project income and/or reimbursements, representing recoveries of direct costs, were recorded as income or as credits to project cost accounts.



Internal Control Structure

1. Obtaining a sufficient understanding of the internal control structure and determining whether related policies and procedures were in operation.
2. Documenting the understanding of the internal control structure.
3. Assessing control risk related to the internal control structure.
4. Documenting the basis for the assessed maximum level of control risk.
5. Considering performing tests of controls.
6. Assessing control risk related to tests of controls.
7. Documenting the basis for the assessed level of control risk at less than maximum level.
8. Designing substantive tests based on assessed level of control risk.

Compliance Testing

1. Identifying the Corporate Agreement terms and pertinent laws and regulations and determining which of those if not observed could have a direct and material effect on the fund accountability statement.
2. Assessing, for each material requirement, the risks that material noncompliance could occur.
3. Designing audit steps and procedures to test for errors, irregularities, and illegal acts that provide reasonable assurance of detecting both unintentional and intentional instances of noncompliance with agreement terms and applicable laws and regulations that could have a material effect on the fund accountability statement.
4. Determining if funds have been disbursed from the accounts in accordance with agreement terms and applicable laws and regulations.
5. Determining that those who received services and benefits were eligible to receive them and that bank officials are not illegally participating or benefiting from the project.



6. Determining that financial reports contain information that is supported by the books and records from which the Fund Accountability Statement is prepared.

In addition, we performed the "Other Audit Responsibilities" included in our Scope of Work document.

Except as discussed in the next paragraph, we conducted our audit in accordance with Generally Accepted Auditing Standards, the financial audit requirements of Government Auditing Standards, issued by the Comptroller General of the United States, the Standards for Internal Controls in the Federal Government, issued by the Controller General of the United States, and the Guide for Financial Audits Contracted by the Agency for International Development issued by the USAID Office of the Inspector General. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statements are free of material misstatement.

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

C. SUMMARY OF AUDIT RESULTS

1. Fund Accountability Statement

Our audit report in respect of the above refers to the following:

- The lack of the existence of an internal quality control review program offered by professional organizations in Morocco,
- The fact that the FAS is prepared on a cash basis.

Our report was qualified in respect of the findings noted below.

- Uncertainty regarding the accuracy of certain expenses incurred in Stamford and charged to IESC Morocco.



- Ineligible costs incurred during the period July 24, 1992 to June 30, 1994 of \$41,727 (including VAT Paid to suppliers but not charged to USAID for reimbursement, amounting to \$33,996).
- Unexplained difference between the current account advances as they appear on the Fund Accountability Statement, and the analysis of the account as of June 30, 1994 of \$1,428. This difference could not be reconciled as the current account advances amount was used during the period as a "suspense" account to record a large number of miscellaneous transactions resulting in questioned costs of \$6,284.

2. Internal Control

- There is a lack of a proper double entry accounting system and accounting software for a non-profit organisation.
- Income tax calculations as well as social security deductions have been performed in 1994 on the basis of 1993 rates. These rates were modified in January 1994.
- According to the CITIBANK confirmation letter, P. Ladd, the former BDS Director remains entitled to sign, individually, IESC Morocco checks with a maximum of \$20,000 per transaction. Mr. Ladd left IESC Morocco in July 1994.
- There is inadequate segregation between accounting and other administrative duties.
- Expense reports are not systematically evidenced as being approved by the General Manager.
- Some expenses incurred during a certain period are reported in the following period, particularly Stamford expenses.

3. Compliance Testing.

Our examination disclosed five instances of non-compliance. Our recommendations in this respect are noted in the Compliance section of our report as follows:

- Delay in connection with the quarterly reviews.
- No accurate and updated computerized data-base on TIS (BDS) clients as at June 1994.



- Annual financial report 1992/1993 was not issued.
- The 1994/1995 work plan submitted to USAID has not yet been approved.
- IESC Management program activity was not reported to the USAID in the fourth to the eighth quarters of the grant (July 1992 to June 1993).

D. SYNOPSIS OF MANAGEMENT COMMENTS

The management of USAID/Morocco and IESC Morocco generally agreed with the audit findings. They have confirmed that with regard to the findings and recommendations in the report, all have been verbally discussed with IESC Morocco who is committed to taking constructive actions on each recommendation as a means to improving its accounting and internal control procedures.

The Mission's further comments are included in Appendix 1.



II- FINANCIAL SECTION

A. INDEPENDENT AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

We have audited the accompanying Fund Accountability Statement of the International Executive Services Corps (IESC) for the period from July 24, 1992 to June 30, 1994.

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

Except as discussed in the next paragraph we conducted our audit in accordance with Generally accepted auditing standards and the financial audit requirements of 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization since no such quality control review program is offered by professional organizations in Morocco. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Morocco Office to be subjected, every two years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

As described in note 2, the accompanying statement has been prepared on the basis of cash disbursements. This basis of presentation is a comprehensive basis of accounting other than generally accepted accounting principles. Accordingly, the accompanying statement is not intended to present results in accordance with accounting principles generally accepted in the United States of America.

In summary, the reportable conditions are as follows:

Uncertainty regarding the accuracy of certain expenses incurred in Stamford and charged to IESC Morocco.



- Ineligible costs incurred during the period July 24, 1992 to June 30, 1994 of \$41,727 (including VAT Paid to suppliers but not charged to USAID for reimbursement, amounting to \$33,996).
- Unexplained difference between the current account advances as they appear on the Fund Accountability Statement, and the analysis of the account as of June 30, 1994 of \$1,428. This difference could not be reconciled as the current account advances amount was used during the period as a "suspense" account to record a large number of miscellaneous transactions resulting in questioned costs of \$6,284.

In our opinion except for the matters referred to above, the Fund Accountability Statement presents fairly, in all material respects, the financial position of IESC for the period from July 24, 1992 to June 30, 1994 in conformity with the basis of accounting described in Note 2.

Price Waterhouse

Casablanca, September 28, 1994

AIM N° 608-0219A



B - FUND ACCOUNTABILITY STATEMENT
July 24, 1992 to June 30, 1994
(Expressed in US Dollars)

	Morocco	Stamford	Notes	Receipts/Disbursements		Questioned costs		Findings
				Actual	Budget	Ineligible	Unsupported	
V.E IN KIND CONTRIBUTIONS			3	731 640				
VETA program	472 496	707 782		1 180 278	1 364 462			
BDS program	441 665	748 096		1 189 761	1 867 328			
MUST program	19 336	229 717		249 053	878 546			
IESCM program	216 792	159 184		375 976	449 818			
VAT, tips and office expenses	(1) 41 727			41 727		(1) 41 727		1
Current account Advances	45 216		4	45 216			(1) 6 284	2
Difference	(1 428)			(1 428)				3
Total disbursements	1 235 804	1 844 779		3 080 583	4 560 154			
Client fees Income	285 508		5	285 508	212 500			
AID advances	978 401	1 556 682		2 535 083				
Total receipts	1 263 909	1 556 682		2 820 591				
Ending Balance	28 105	(288 097)	6	(259 992)				

(1) See Appendix 2 for details

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C. NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - BASIS OF PRESENTATION AND SOURCE OF DATA

The Fund Accountability Statement which is the responsibility of IESC Morocco management represents all receipts and disbursements in respect of the USAID grant of \$10.4 million to assist Moroccan enterprises in assessing international markets.

NOTE 2 - BASIS OF ACCOUNTING

The fund accountability statement has been prepared on the basis of cash disbursements. Consequently, receipts are recorded when the cash is received rather than when the amount becomes due and expenditures are recognized when paid rather than when the obligation is incurred.

NOTE 3 - VE IN-KIND CONTRIBUTIONS

IESC Morocco calculates the value of the Volunteer Executive services at a rate of \$469 per day. In Kind contributions calculated from July 24, 1992 through June 30, 1994 totalled \$731,640.

NOTE 4 - CURRENT ACCOUNT ADVANCES

This amount represents advances on expense reports, invoices and air fare advances for which expense reports and other supporting documents have not yet been provided.

NOTE 5 - CLIENT FEES INCOME

This amount represents clients contributions collected for technical assistance provided by Volunteer executives. These contributions are invoiced as follows:

- \$6,500 the first month;
- \$3,500 the subsequent months.



NOTE 6 - CASH IN BANK - REVENUE ACCOUNT

This is the balance per the bank statement as of June 30, 1994.

NOTE 7 - QUESTIONED COSTS

Questioned costs are presented in two separate categories - ineligible and unsupported costs. Costs in the column labelled "Ineligible" are supported by vouchers or other documentation but are ineligible for reimbursement because they are not program related, are unreasonable, or prohibited by the contract/subcontracts or applicable laws and regulations. Costs in the column labelled "Unsupported" are also formally included in the classification of "questioned costs" and relate to costs that are not supported with adequate documentation or did not have the required prior approvals or authorizations.



D- FINDINGS

Finding 1 : Uncertainty in connection with certain Head-office (Stamford) expenses.

IESC's head office is located in Stamford USA. We understand that some management time in Stamford is dedicated to the supervision of the project in Morocco.

A number of subjective items are invoiced by Stamford to IESC Morocco including allocated costs, US personnel payroll, and time spent by executives in Stamford or the Moroccan operations. These costs are difficult to audit and verify and amount to some 20% of total expenses.

Recommendation : Stamford should be requested to send in as much detail and original documents as possible in order to facilitate tracking of "subjective" charges. eg. copies of pay-slips of the personnel involved, time reports duly reviewed and approved by Stamford management, basis of allocation of costs etc.

Finding 2 : Ineligible costs \$ 41,727 - see Appendix 2 for details

The total amount of ineligible costs incurred during the period July 24, 1992 to June 30, 1994 was \$ 41,727 (including VAT Paid to suppliers but not charged to USAID for reimbursement, that amounts \$ 33,995.74).

A declaration of VAT paid to suppliers, together with the original invoices, was submitted to USAID for reimbursement by the tax authorities.

Recommendation : Only eligible costs should be incurred.

Finding 3 : Unjustified discrepancy

There is a difference of \$1 428 between the current advances account as it appears on the Fund Accountability Statement, and the analysis of the account as of June 30, 1994. This difference could not be reconciled or explained.

Recommendation :

All accounts should be analyzed on an ongoing basis and the FAS prepared and reconciled to the bank statements at least every quarter.



Finding 4 : Current account advances account

During our review of the "current account advances" account, we noted that the account was used to record a large number of miscellaneous "suspense" operations including:

- An amount of \$1,072.54 that appears on the bank reconciliation related to an advance made to the US Tourism Director and reimbursed in the same period but not accounted for as being cleared as of June 30, 1994;
- \$3,818 relating to expense reports incurred from November 1993 to June 1994 but not submitted by P.Ladd, the former BDS Manager who left in July 1994, (questioned expense). This amount appears as an advance;
- \$535 relating to travel expenses of the former General Manager, D. Barton, for which no expense report is available to date - we consider the expense as unsupported;
- \$1,089 representing an amount receivable from M. Belde concerning personal calls made in the office from July 1993 to April 1994;
- \$1,850 that represent an invoice paid to Walsman to be deducted from a GTSI invoice in connection with computers purchases in June 1993. We noted that the GTSI invoice has not been charged by IESC Stamford - the invoice amounts \$ 38,717;
- \$1,643 related to an invoice paid, as an advance, by IESC Morocco for Centre Entreprise Marocaine (CEM). To date, CEM has not yet reimbursed the advance.
- \$2,700 representing Sibley fees (Sibley is a Canadian franchiser who participated in the seminar on Franchising in December 1993) paid but not charged to USAID. This invoice should have been liquidated in December 1993;
- \$1,931 (Questioned cost) representing an advance on SIGHT Maroc invoice accounted for twice. This amount will be adjusted in the July 1994 quarter.

Recommendation :

This account should not be used as a suspense account. All advances should be backed up with appropriate documentation and expense reports.



Finding 5

In 1993, IESCM organised a seminar on Franchising, in cooperation with CEM and the American Chamber of Commerce (AMCHAM). The seminar registration fees generated an income of approximately \$6,500 (DH 58,975) collected by AMCHAM for IESC. To date AMCHAM has not yet reimbursed this amount.

Recommendation :

The amount should be collected as soon as possible.



III- INTERNAL CONTROL STRUCTURE

A. INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROLS

We have audited the Fund Accountability Statement of the Moroccan International Executives Services Corps (IESC) for the period from July 24, 1992 to June 30, 1994 and have issued our report there on dated September 28, 1994.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards, and the financial audit requirements of 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 statements are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization since no such quality control review program is offered by professional organizations in Morocco. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Morocco Office to be subjected, every two years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

In planning and performing our audit, we considered IESC Morocco's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The management of IESC Morocco 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 objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial reports and to maintain accountability over the entity's assets.

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 procedures may deteriorate.



For the purpose of this report, we determined the significant internal control structure policies and procedures to be in the categories of cash management, recording of transactions, and filing and retrieval operations. For these internal control structure categories, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted 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 the organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the Fund Accountability Statement.

In summary, the reportable conditions are as follows:

- There is a lack of a double entry accounting system and accounting software for a non-profit organisation.
- Income tax calculations as well as social security deductions have been performed in 1994 on the basis of 1993 rates. These rates were modified in January 1994.
- Accounting to the CITIBANK confirmation letter, P. Ladd, the former BDS Director remains entitled to sign, individually, IESC Morocco checks with a maximum of \$20,000 per transaction. Mr. Ladd left IESC Morocco in July 1994.
- There is inadequate segregation between accounting and other administrative duties.
- Expense reports are not systematically evidenced as being approved by the General Manager.
- Some expenses incurred during a certain period are reported in the following period, particularly Stamford expenses.



A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the financial 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 are also considered to be material weaknesses as defined above. However, we believe that the reportable conditions described above are not material weaknesses. This is because the majority of the more important findings relate to the fact that there was no separate accounting records maintained for the Fund - a situation that was corrected from 1992 onwards.

This report is intended for the information of IESC Morocco management and the United States Agency for International Development. The restriction is not intended to limit the distribution of this report if it is a matter of public record.

Price Waterhouse

Casablanca, September 28, 1994



B. FINDINGS

Finding 6 : Lack of a double entry accounting system and non profit accounting software.

IESC records are maintained on a single entry basis. This does not facilitate accurate book-keeping and monitoring and control over accounting entries and the entity's operations.

Recommendation :

A double entry system of book keeping should be implemented as soon as possible together with the installation of appropriate non profit accounting software.

Finding 7 : Salary deductions

Income tax as well as social security deductions have been performed in 1994 on the basis of 1993 rates. These rates were modified in January 1994 but IESC deducted income tax on the basis of 48% instead of 46%.

Recommendation :

IESC should adjust the income tax before the end of 1994.

Finding 8 : Citibank confirmation

According to the Citibank confirmation letter, we noted that P. Ladd, the former BDS Director remains entitled to sign, individually, IESC Morocco checks with a maximum of \$20 000 per transaction. Mr. Ladd has left IESC Morocco in 1994.

Recommendation:

IESC should immediately establish and communicate to its banks an updated list of persons entitled to sign and approve movements of funds in the bank accounts.



Finding 9 : Inadequate segregation of duties.

There is an inadequate segregation between accounting and other administrative duties with one employee performing tasks related to both functions thereby increasing the risks associated with effective internal controls.

Recommendation : We recommend that accounting responsibility be separated from treasury management and administrative tasks.

Finding 10 : Expense reports

Expense reports are not systematically evidenced as being approved by the General Manager. There is a risk that expense reports be reimbursed without being fully justified.

Recommendation :

Management should make sure that expense reports be documented according to legal requirements, and be initialled as being approved by the General Manager.

Finding 11 :

Some expenses incurred during a given period are reported the following period, particularly Stamford expenses. There is a possibility therefore that due to this cut-off error monthly status reports do not give a fair image of the expenses incurred and disbursed during a given period.

Recommendation :

IESC should request Stamford to provide information and documents on a more timely basis.



IV- COMPLIANCE WITH AGREEMENT TERMS, LAWS AND REGULATIONS

A. INDEPENDENT AUDITOR'S REPORT

We have audited the Fund Accountability Statement of International Executive Services Corps Morocco (IESC Morocco) for the period from June 24, 1992 to June 30, 1994 and have issued our report there on dated September 28, 1994.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of 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 statements are free of material misstatement.

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

Compliance with laws, regulations and procedures applicable to the Moroccan International Executive Service Corps (IESC) Export Insurance Company is the responsibility of IESC Morocco's management. As part of obtaining reasonable assurance about whether the statements are free of material misstatement, we performed tests of IESC Morocco's compliance with certain provisions of laws, regulations, contracts, subcontracts and binding policies and procedures. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.



The result of our tests indicate that respect to the items tested IESC complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that IESC had not complied, in all material respects, with such provisions.

This report is intended for the information of IESC Morocco's management and the United States Agency for International Development. The restriction is not intended to limit the distribution of the report if it is a matter of public record.

Price Waterhouse

Casablanca, September 28, 1994



B FINDINGS

Finding 12 : Delay in connection with quarterly reviews

Quarterly reviews of IESC monthly status reports are regularly conducted by an independent CPA firm. However, these reviews take place after the deadline stated in the Corporate Agreement due to IESC's quarter closing delay caused as a result of non receipt of Stamford expenses on a timely basis.

Recommendation:

We recommend that further efforts be made to obtain Stamford package as soon as possible via overnight express-mail, for example, in order to close the quarter within the deadline stated in the agreement.

Finding 13 : TIS clients data-base not updated

IESC does not have an accurate and updated computerized data-base on TIS (BDS) clients as of June 1994. That could result in lack of information in the USAID "Private Sector Tracking System".

However, we noted that the data-base is in process of completion and entry in the "Global Evaluation and Reporting System - GEARS" via a network system connected to IESC Stamford.

Recommendation:

We recommend that efforts be made to complete and update clients information via follow-up meetings and submit the data base to USAID in order to be integrated in the Private Sector Tracking System.

Finding 14 : 1992/1993 annual financial report not issued

We noted that IESC did not issue the 1992/1993 annual financial report as required per the Corporate Agreement (financial reporting on a yearly basis).

Recommendation:

IESC should issue annual financial reports as required by the Corporate Agreement.



Finding 15 : Work plan 1994/1995 not approved

During our review of the annual work plans we noted that the 94/95 work plan submitted to USAID has not yet been approved. Technically therefore IESC has started 1994/1995 without the approval of USAID for the activities undertaken by it.

Recommendation:

IESC should obtain formal approval of the 1994/1995 work from USAID.

Finding 16 : IESC Management activity not reported

During our review of the Quarterly Reports we noted that the IESC Management program activity was not reported to the USAID in the fourth to the eighth quarters of the grant (July 1992 to June 1993). There is a risk therefore that the information provided in the quarterly reports is not accurate.

Recommendation:

We recommend that management provide as complete information as possible about IESC's activity in order to help USAID assess the project implementation.



Appendix 1 - Management comments

The Mission has two comments in respect of the audit report - See attached.

The first comment relates to a matter to be resolved between the Mission and RIG/Dakar.

The second comment relates to a change in the technical reference used in respect of Questioned costs.



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MEMORANDUM

DATE : February 10, 1995
FROM : Michael Farbman, Director, USAID/Morocco 
SUBJECT : Audit of the International Executive Service Corps
under the Assessing International Markets Project
(No. 608-0219) from July 24, 1992 to June 30, 1994
TO : Thomas B. Anklewich, RIG/A/Dakar

Ref: Anklewich/Farbman draft comments dated January 13, 1995.

The Mission has read the draft and has two comments:

(1): Size of Questioned Costs: We are concerned that the final results of the audit may not have been fairly presented by RIG. We are referring to RIG's Recommendation No. 1 that combines "uncertain" expenditures (\$1.85 million) incurred by IESC/Stamford and charged to IESC/Morocco with questioned/ineligible expenditures of \$41,727, resulting in questioned costs of \$1,892,790. The amount of "uncertain" expenditures is principally salary costs of Stamford employees. The reason why the draft audit finds these expenditures to be uncertain is because "...These costs are difficult to audit and verify..." since the records are not located in Casablanca.

We believe that combining the "uncertain" expenditures with questioned/ineligible expenditures into one recommendation with one questioned amount of \$1,892,790 magnifies the problem out of proportion with the weaknesses found by the audit.

The "uncertain" questioned Stamford expenditures can and should have been audited even if the records weren't conveniently available in Casablanca. Suggested supplemental steps to audit the expenditures could include the following:

1. Obtain IESC Stamford audit reports for the periods in question.
2. Based on the confidence derived from (1) above, decide what additional steps should be performed including the following:
 - a. Obtain working papers from the US auditors on payrolls for the period in question.

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- b. Obtain detailed payroll information from Stamford for the payrolls in question, including payroll registers and support for payroll apportionments between programs (i.e., VETA, TIS, MUST), and IESC management.

Please note that the above steps are within the scope of the audit work order section B. 1.

We believe that with the above changes to the recommendation it could be presented fairly as follows: "We recommend that USAID/Morocco resolve the questioned costs of \$41,727 and recover those costs determined to be unallowable or unsupported."

(2) Cooperative Agreement Cost Principles: There is one final point in the draft audit that should be corrected. On page 12, Note 7, "Questioned Costs", please note that the cost principles that should be applied to IESC's Cooperative Agreement are not the Federal Acquisition Regulations (FARs) and Handbook 14. Rather, the Agreement falls under the cost principles as prescribed in OMB Circular A-122, "Cost Principles for Nonprofit Organizations" and USAID Handbook 13, "Grants and Cooperative Agreements". The cost principles in OMB Circular A-122 and Handbook 13 are significantly different than those for the FARs. You may want to direct the non-Federal audit firm to ensure that it is using the correct cost principles for this and other audits of nonprofits.


Drafted: Cont: JRFunkey: 02/09/95: at
Clearance: EG: SRiley (Draft)
RCO: MReynolds (Substance)
DDIR: MJHradsky (Draft)

UNCLAS

ADM AID FOR RIG/A/DAKAR

RABAT 01549

ACTION: AID-1
INFO: AMB-1 RIG-1 DCM-1

DISTRIBUTION: AIDA
CHARGE: AID

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TO AMEMBASSY DAKAR 0054
BT
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ADM AID

FOR RIG/A/DAKAR THOMAS ANKLEWICH

E.O. 12356: N/A
SUBJECT: AUDIT OF INTERNATIONAL EXECUTIVE SERVICE
- CORPS, PROJECT NO. 608-0189

REF: DAKAR 01807

1. ACCORDING TO IESC STAMFORD CONTROLLER MS. WILMA A. BIELER, OFFICIAL ACCOUNTABILITY FOR SALARY COSTS IS IN STAMFORD SINCE THE PAYROLL IS PREPARED BY ADP THERE. THE IESC MOROCCO ACTIVITY IS CONSIDERED AS BRANCH OFFICE ACTIVITY WHICH IS CONSOLIDATED WITH STAMFORD AND OTHER IESC WORLDWIDE ACTIVITY FOR FINANCIAL STATEMENT PURPOSES. IESC STAMFORD HAS AVAILABLE FINANCIAL AND A-133 AUDITS FOR 1992 AND 1993. AS IESC STAMFORD'S FISCAL YEAR IS THE CALENDAR YEAR, THE 1994 AUDIT WILL BE AVAILABLE AT THE END OF APRIL. WHILE NO SPECIFIC AUDIT REPORTS EXIST REGARDING SALARIES/ALLOCATION OF SALARIES, WE ARE SURE THAT SALARIES MUST HAVE BEEN AUDITED, SINCE THEY REPRESENT APPROXIMATELY 4 MILLION DOLLARS OF THE 20 MILLION DOLLARS OF IESC ANNUAL EXPENDITURES (I.E. SALARIES ARE A MATERIAL ITEM.)

MISSION IS IN THE PROCESS OF OBTAINING AVAILABLE AUDITS AND WILL PASS THESE AUDITS TO RIG AUDITORS DURING THEIR NEXT VISIT TO MOROCCO. GINSBERG

BT
#1549

UNCLAS

ADM AID FOR RIG/A/DAKAR

RABAT 01549



Appendix 2 - Questioned costs

1. Ineligible

	\$
VAT	33 997
Tips and non-eligible bank charges on transfers	5 507
Office refreshments (tea, coffee etc) and ineligible maintenance (maids etc)	<u>2 223</u>
	<u>41 727</u>

2. Unsupported

P. Ladd advance not evidenced by an expense report	3 818
D. Barton moving expenses not evidenced by expense report	535
Sight Maroc invoice paid twice	<u>1 931</u>
	<u>6 284</u>
Total Questioned costs	\$ <u>48 011</u>