

CWIP

**St. Ann Chamber of
Commerce Grant Program
Financial Audit**

Coastal Water Quality Improvement Project

USAID Contract No. 532-C-00-98-00777-00

St. Ann Chamber of Commerce Grant Program Financial Audit

February 2000 – July 2002

Prepared for the:

Government of Jamaica's
National Environment and Planning Agency

And the

United States Agency for International Development

Implemented by:

Associates in Rural Development, Inc.
P.O. Box 1397
Burlington, Vermont 05402

Table of Contents

Transmittal Letter and Summary	5
1. Background	6
1.1 General description of ARD contract	6
1.2 Period covered by the audit	6
2. Audit	6
2.1 Purpose and scope of the financial audit	6
2.2 Task or procedures performed	6
3. Brief Summary of the Results of the Audit	10
3.1 Financial status report	10
3.2 Internal control structure	10
3.3 Compliance with agreement terms and applicable laws	10
3.4 Financial record keeping	10
Financial Status Report	11
Notes to the Financial Status Report	13
Independent Auditor’s Report on Internal Control Structure and Findings	15
Independent Auditors’ Report on compliance with Agreement Terms, Applicable Laws, Regulations and Findings	17

Transmittal Letter and Summary

October 21, 2002

Dr. Scott McCormick
Chief of Party (Contract Supervisor)
Associates in Rural Development, Inc. (Jamaica) (ARD)
5 Oxford Road
Kingston 5.

Dear Sir,

This report presents the results of our financial audit of CWIP's Grant Program managed by the St. Ann Chamber of Commerce (SACOC) for the period February 2000 to July 2002.

Yours faithfully,

Kenneth Williams (B.Sc, M.Sc)

1. Background

1.1 General Description

On February 1, 2000, the ARD/CWIP authorized a sub-grant to St. Ann Chamber of Commerce (SACOC) over a 2-year period. The purpose of this project was to provide technical and financial assistance to targeted communities to develop and implement environmental initiatives, which contribute to the improvement of costal water quality.

Grant Funds have been provided to SACOC in support of the activities described in the applications for strengthen Ocho Rios wastewater system Advisory and Monitoring Committee (AMC) and sustainable agricultural practices. Since February 1, 2000 SACOC received grant funds for implementing projects under CWIP's Grant Program. At the end of July 2002, SACOC completed all their grant projects.

1.2 Period covered by the audit:

The audit covered the period February 1, 2000 to July 31, 2002.

2. Audit

2.1 Purpose

The purpose of the proposed consultancy is to conduct and document a financial audit of SACOC to ensure adherence to USAID financial management standards. The financial audit shall include the review of accounting records and controls, operating procedures, and other documentation and procedures of SACOC to determine appropriate use of USAID grant funds as outlined in CWIP's Grant Management Program Plan (GMPP).

2.2 Tasks

The tasks outlined for this consultancy responds to the purpose outlined above. The tasks to be completed include;

1. Examination of SACOC's financial accounting and internal control systems, the examination will focus on;
 - a. Evaluating the internal accounting control system.
 - b. Interviewing key personnel to discuss the organization's management of information including financial management systems.
 - c. Reviewing job descriptions and qualifications of all key project accounting and administrative personnel.
2. Audit of SACOC's accounting records, with a focus on;
 - a. Review periodic management and financial reports of SACOC, including audited financial statements and audit management letters.
 - b. Review of SACOC's accounting management information system.

- c. Document SACOC's subsystems of internal accounting control, including the following major subsystems:
 - Cash receipts
 - Cash disbursements
 - Purchasing, procurement, and contracting
 - Payroll
 - Fixed Assets
 - d. Perform transaction reviews to confirm financial and administrative system as documented.
 - e. Audit current reporting requirements
 - f. Audit review the accounting records and internal control of the various subsystems.
3. Prepare a final report.

Understanding the Project Background

We reviewed the following items to become familiar with USAID contracting procedures, the contract and the contractor.

- Agreement between ARD/CWIP and SACOC, including amendments and mandatory standard provisions, as applicable;
- Contracts and subcontracts with third parties, if any;
- Description of operations of the projects;
- The budgets, project implementation letters and written procedures approved by ARD/CWIP to manage the projects.
- Minutes/reports of meetings;
- Circulars and handbook relevant to the projects;
- Financial statements, progress reports, and other management reports;
- Key correspondence;
- Contractual commitments;
- Other key factors affecting the clients operation;
- Policies and procedures;
- Accounting records maintained;
- Job descriptions;
- Accounting system description;
- Procurement policies;

- All other information as required by the Statement of Work

Evaluation of Project's Control Environment

The control environment was evaluated by asking questions from key personnel at SACOC and addressed the following aspects:

- Control consciousness
- Segregation of duties
- Management override
- Competence of personnel
- Protection of assets and records

Risk Assessment (Accounting System and Control Procedures)

For this purpose, questions were asked of key staff members engaged in operations and traced all information from their point of origin to their collection point, which will be an entry in the books of accounts. Also, we traced all the relevant processing steps indicating where control procedures take place. This methodology assisted greatly to plan an effective audit approach and to carry out the audit of the Financial Status Report.

In addition, we assessed procurement procedures and practices (SACOC was authorized to make procurement under US\$500 only), controls over fixed assets and bank accounts, and controls to assure that changes to the project were proper and supported.

Performance of Audit Work

The following were performed during the audit:

- Examined the Financial Status Report of each sub-grant, including the budgeted amounts by category and major items, the costs reported as incurred during the period covered by the audit, and the revenues received from the ARD/CWIP for the period.
- Direct ARD/CWIP procurement was accounted for, and control procedures exist to safeguard such assets.
- Evaluated project implementation actions and accomplishments to determine that costs incurred were allowable, allocable and reasonable under the agreement terms.

During my examination, we:

- Reviewed direct cost reimbursed by ARD/CWIP, identifying and quantifying questionable costs. Any costs which were not supported with adequate documentation or which were not in accordance with applicable agreement terms were considered as questionable and included as findings in the auditor's report.
- Reviewed the project ledgers to determine whether costs incurred were properly recorded. Thereafter, we reconciled the direct costs reimbursed by ARD/CWIP to the project ledgers.
- Reviewed the procedures used to control the funds, including their channelization to contracted financial institutions or other implementing units. We ensured that all project funding provided by implementing entities, were appropriately recorded in the accounting records, and periodically reconciled with information provided by such sources.

- Determined whether advance funds were justified with documentation, including reconciliation of funds advanced, disbursed and available.
- Determined also that separate bank accounts were maintained and not co-mingled, with any interest earned thereon above U\$250 per annum being for the account of ARD/CWIP.
- Reviewed travel and transportation expenses to determine whether they were adequately supported and approved.
- Determined whether income and reimbursement, if any, representing recoveries of direct costs were credited as income or as credits to the project costs accounts. If any revenue was earned with project funding, the amount was questioned, if not credited as reductions to the project costs or used to further project objectives. If cash advances were placed in interest bearing accounts, we calculated the portion of interest income that was retained by SACOC, and the amount due to ARD/CWIP.
- Reviewed procurement procedures to determine whether sound commercial practices, including competition were used, reasonable prices were obtained, and that there were adequate controls over the qualities and quantities received.
- Reviewed direct payments and purchases made by ARD/CWIP on behalf of the projects to evaluate the procedures used by the implementing entities to properly record and control the assets and commodities received.
- Determined whether salary rates were reasonable for that position in keeping with those approved by ARD/CWIP, and salaries paid were supported by appropriate payroll records.
- Determined whether allowances and fringe benefits received by employees were in accordance with the agreement and applicable laws and regulations.

We performed the following to determine whether SACOC complied with agreement terms, implementation letters and applicable laws and regulations:

- Identified the agreement terms, project implementation letters and pertinent laws and regulations, and determined which of those not observed could have a direct material effect on the Projects Financial Status Report.
- Assessed the internal controls in place to ensure compliance with agreement terms and applicable laws and regulations to provide reasonable assurance of detecting both intentional and unintentional instances of non-compliance that could have a material effect on the Projects Financial Status Report.
- Reviewed payments to determine if they have been made in accordance with agreement terms and applicable laws and regulation.
- Scrutinized project funds to determine if expended for purpose not in accordance with agreement terms.
- Identified any costs not considered appropriate, explaining why they are questionable.
- Determined whether any commodities and technical assistance directly procured by ARD/CWIP are unaccounted for and have not been used for their intended purposes in

accordance with the agreements. If so the cost of such commodities and technical assistance were questioned

- Determined that the recipient's financial reports and claims for advances and reimbursements contain information that is supported by the books and records.

3. Brief Summary of the Results of the Audit

3.1 Financial Status Report

The results of my tests indicated the following:

In our opinion, the Financial Status Report of SACOC presented fairly, in all material respects, project revenues and expenses for the period in conformity with generally accepted accounting principles.

3.2 Internal Control Structure

We evaluated SACOC internal control structure relating to the CWIP's sub-grants agreement under review in order to assess control risk and to determine my auditing procedures for the purpose of expressing an opinion on the Financial Status Reports and not to provide assurance on SACOC internal control structure as a whole.

3.3 Compliance with agreement terms and applicable laws and regulations.

As part of the audits, we tested compliance with certain provisions of laws, regulations, controls, programmes and binding policies and procedures to obtain reasonable assurance that the Financial Status Reports is free of material misstatements, and not to provide assurance on SACOC compliance with such provisions.

The result of our tests indicated that with respect to items tested, SACOC **complied, in all material respects, with the grant** agreements terms and applicable laws and regulations. Regarding items not tested, nothing came to my attention, which caused us to believe that SACOC had not complied, in all material respects, with those provisions.

3.4 Financial Record Keeping

SACOC showed effective record keeping system.

Financial Status Report

Dr. Scott McCormick
Chief of Party
CWIP
2 Oxford Place
Kingston 5.

We have audited the Financial Status Reports of SACOC for the period February 1, 2000 to July 31, 2002. The Financial Status Report is the responsibility of SACOC management. Our responsibility is to express an opinion on the Financial Status Report based on my audit.

The audit of the Financial Status Report was conducted in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance that the Financial Status Report is free of material misstatement. The audit includes examining on a test basis, evidence supporting the amounts and the disclosures in the Financial Status Report. The audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall Financial Status Report presentation. We believe that the audit provides a reasonable basis for our opinion.

The results of the tests indicated that with respect to items tested, SACOC complied, in all material respects, with the grant agreement terms and applicable laws and regulations. Regarding items not tested, nothing came to our attention, which caused us to believe that SACOC had not complied, in all material respects, with those provisions.

In our opinion, the Financial Status Reports presents fairly, in all material respects, project revenues and expenses for the period February 1, 2000 to July 31, 2002, in conformity with generally accepted accounting principles.

This report is intended for the information of the management of SACOC and ARD/CWIP. However, upon release by ARD/CWIP, this report is a matter of public record and its distribution is not limited.

October 21, 2002

Financial Status Report

St. Ann Chamber of Commerce Grant Program

	Budget J\$	Actual expenditure J\$	Questioned Ineligible	Costs Unsupported
Receipts				
Grant # 11	1,667,000.00	1,224,707.10		
Grant # 22	1,563,000.00	985,512.62		
Grant # 23	2,249,800.00	370,850.00		
Total Receipts	5,479,800.00	2,581,069.72		-
Expenditure				
Grant #11	1,667,000.00	1,222,941.90	12,800.00	
Grant #22	1,563,000.00	951,558.72		42,613.50
Grant #23	2,249,800.00	297,587.46		
Total Receipts	5,479,800.00	2,472,088.08	12,800.00	42,613.50
Less Questioned Costs		55,413.50		
Total Expenditure		2,416,674.58		
Balance Reimbursable		164,395.14		

Notes to the Financial Status Report

1. Background

On February 1, 2000, the ARD/CWIP authorized a sub-grant to SACOC over a 2-year period. The purpose of the project was on providing technical and financial assistance to targeted communities to develop and implement environmental initiatives, which contribute to the improvement of costal water quality. SACOC implemented two additional projects that dealt with strengthening wastewater advisory and monitoring committee and supporting sustainable agricultural practices project.

2. Basis of Accounting

The projects operate an advance and reimbursable system of funding. Consequently, expenditures are recognized when paid and reimbursable funding in respect of these expenditures is also recognized and liquidated against the advance at the same time.

3. Questioned Costs

According to applicable ARD/CWIP regulations, costs charged to the programme must meet the following general criteria:

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

Questioned costs are those costs which are explicitly ineligible because they are not programme related, are unreasonable or prohibited by the terms of agreements or applicable laws and regulations; costs not properly supported by adequate documentation; and costs in excess of the budgeted amount.

- (e) The following costs were questioned;
 - Condition: Grant #11 – Payments totaled \$12,800 was disbursed by SACOC to Angella Stewart (Former Accounting Clerk) as salary payments after the cessation of her employment with SACOC.

Recommendation: SACOC should reimburse ARD/CWIP the sum mentioned above.

- Condition: Grant#22 - No supporting vouchers were seen for payments made by cheques #0191848 and 091849 in the amount of \$28,813.50 and \$13,800 respectively.

Recommendation: SACOC should produce the necessary documentation to support the expenditures. Failure to produce same should result in SACOC reimbursing ARD/CWIP the said sums.

- Budget

The budget figures shown in the Financial Status Reports is based on the approved budget over the life of the sub-projects.

- (f) Currency

All transactions are reported in Jamaican dollars.

- (g) Prior period amounts

There were no prior period amounts.

Independent Auditor's Report on Internal Control Structure and Findings

Dr. Scott McCormick
Chief of Party
CWIP
2 Oxford Place
Kingston 5.

We have audited the Financial Status Reports of SACOC for the period February 1, 2000 to July 31, 2002 as set out on pages, and have issued my report thereon, dated October 21, 2002.

The audit of the Financial Status Report was conducted in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance that the Financial Status Report is free of material misstatement.

The management of SACOC 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 the internal control structure, policies and procedures. The objectives of an internal control structure are to provide management with reasonable but not absolute, assurance that assets are safeguarded against loss from unauthorized used or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of agreements; and transactions are properly to permit the preparation of the Financial Status Report in conformity with the basis of accounting described in note 2, to the Financial Status Report. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing the audit of the Financial Status Report on SACOC for the period February 1, 2000 to July 31, 2002, we obtained an understanding of the internal control structure. With respect to the internal control structure, 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 in order to determine the auditing procedures for the purpose of expressing an opinion on the financial status report and not to provide an opinion on the internal control structure. Accordingly, we did not express such an opinion.

There were no matter involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute o Certified Public Accountants (AICPA).

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 recipient's ability to record, process, summarize, and report financial data consistent with the assertions on management in the financial status report.

A material weakness is a reportable condition in which the design or operation of one or more 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 status

report, 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, nothing came to our attention involving the internal control structure and its operations that we consider to be a material weakness as defined above.

This report is intended for the information of SACOC and ARD/CWIP. However, upon release by ARD/CWIP, this report is a matter of public record and its distribution is not limited.

October 21, 2002

Independent Auditors Report on Compliance With Agreement Terms, Applicable Laws, Regulations and Findings

Dr. Scott McCormick
Chief of Party
CWIP
2 Oxford Place
Kingston 5

We have audited the financial status report of SACOC for the period February 1, 2000 to July 31, 2002 and have issued a report thereon dated October 21, 2002.

The audit was conducted in accordance with U.S. Government Auditing Standards, issued by the Comptroller General of the United States of America. These standards require that the audit is planned and performed to obtain reasonable assurance that the Financial Status Report is free of material misstatements.

Compliance with agreement terms and laws and regulations applicable to SACOC and is the responsibility of SACOC management. As part of obtaining reasonable assurance about whether the financial status report of SACOC are free of material misstatement, we perform tests of SACOC compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on the overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of the tests disclosed a few immaterial instance of non-compliance, this is detailed on page.....

This report is intended for the information of SACOC and ARD/CWIP. However, upon release by ARD/CWIP, this report is a matter of public record and its distribution is not limited.

October 21, 2002

Finding on Compliance with Agreement Terms, Applicable Laws and Regulations

Condition

Grant #11 - A number of receipts was not lodged on a timely basis. Advance received on the 24/2/00, 18/8/00 and the 25/9/00 were lodged 5 days, 6 days and 6 days respectively after receipts. Advance received on the 18/5/01 was lodged 3 days after. Receipt.

Recommendation

SACOC should ensure that lodgments are made on a timely basis.

CWIP

Coastal Water Quality Improvement Project