AUDIT OF USAID'S GRANT TO
THE UNIVERSITY OF SCIENCE
AND TECHNOLOGY SCHOOL OF MINES
SEPTEMBER 27, 1990 TO SEPTEMBER 30, 1997
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<tr>
<td></td>
<td>D. Synopsis of Management Comments</td>
<td>13-14</td>
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The Acting Director
USAID/Ghana Mission
Accra

Dear Sir,

TRANSMITTAL LETTER AND SUMMARY

A. **Background**

The grant of $149,699 was given by AID Washington towards the funding of a research project with the objective of finding the origin of gold and diamond deposits in the Akwatia, Tarkwa and Prestea areas in Ghana, determining safe and suitable mining methods for small scale mining, and developing simple methods of extracting gold and diamonds without causing any degradation of the environment. The research project no. 963-5600 entitled "The Genesis of Alluvial Deposits of Gold and Diamonds: Implications for Small Scale Mining" was to be a collaborative effort between University of Science and Technology School of Mines and New Mexico Institute of Mining and Technology (NMT) in Socorro, USA. The agreement was signed on September 27, 1990 and was to expire on August 30, 1995.

The project proposal was submitted in 1990 by University of Science and Technology School of Mines to the Programme in Science and Technology Cooperation (PSTC) Office of the Science Advisor, AID in Washington DC, USA, which eventually approved the project. Part of the project was sub-contracted to NMT, the collaborating institution. This was to enable University of Science and Technology School of Mines to take advantage of the computerized and other sophisticated facilities at NMT which were unavailable in Ghana.
The project was administered from Washington D.C. (PSTO) while Regional Economic Development Services, West Africa, (REDSO) Abidjan was named as the paying office. There was no clearly defined role of USAID/Ghana in the administration of the project resulting in problems and delays in start-up and administration of the project as will be indicated later in this report.

At the commencement of the project REDSO sent an officer from Abidjan to carry out a certification of University of Science and Technology School of Mines’ accounting and internal control structures. The officer, a financial analyst, certified the systems as being adequate. AID Regulations, the Financial and Stores Regulations of the University of Science and Technology as well as various USAID reporting formats specified in Report Forms were to be applied to administer the project. The officer also supervised the opening of a project bank account and recommended the granting of a waiver for the requirement to submit original receipts covering University Of Science and Technology School of Mines pre-financed expenditure which were declared missing at the time.

The Principal of University of Science and Technology School of Mines appointed the School’s Chief Cashier and the Chief Internal Auditor to act as Accountant and Internal Auditor respectively for the project, in addition to their normal schedules of work in the School.

The officer from REDSO introduced them to A.I.D’s format for requesting for fund advances and mode of liquidation of such advances as well as other forms of reporting to USAID.

The principal line items and amounts budgeted for the program in Science and Technology Cooperation grant are as follows:

<table>
<thead>
<tr>
<th>Line Item</th>
<th>Estimated Amount</th>
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<tr>
<td>Salaries</td>
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<tr>
<td>Equipment</td>
<td>$19,900</td>
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<td>Materials &amp; Supplies</td>
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<td>Travel</td>
<td>$53,867</td>
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<tr>
<td>Other Direct Costs</td>
<td>$4,192</td>
</tr>
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<td>Indirect Costs</td>
<td>$8,095</td>
</tr>
<tr>
<td>Total</td>
<td>$149,699</td>
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B. **Audit objectives and scope**

**Audit objectives**

Our financial audit was performed in accordance with internationally accepted auditing standards, the US Comptroller General’s “Government Auditing Standards” and the “USAID Guidelines for Financial Audits contracted by Foreign Recipients”. The Specific objectives were to:

(i) Express an opinion on whether the fund accountability statement for the USAID funded program presents fairly, in all material respects, project revenues received and costs incurred for the period September 27 1990 to December 31 1997 in conformity with internationally accepted accounting principles.

(ii) Evaluate and obtain a sufficient understanding of the internal control structure of University of Science and Technology School of Mines, assess control risk, and identify reportable conditions, including material internal control weaknesses.

(iii) Perform tests to determine whether University of Science and Technology School of Mines complied, in all material respects, with agreement terms and applicable laws and regulations and express positive assurance on those items tested and negative assurance on those items not tested. All material instances of noncompliance and all indications of illegal acts should be identified.

(iv) determine if the organization has taken adequate corrective action on prior audit report recommendations.

2.0 **Scope**

2.1 **Pre-Audit Steps**

(i) The scope of our audit included as far as possible a review of the following documents as part of our agreed pre-audit steps. The Program Grant Agreement dated September 27 1990 including the amplified program description contained in annex 1 as well as all amendments thereto. Program Implementation Letters.

(ii) The written procedures approved by USAID to manage the program.

All program financial and progress reports, audits, financial Management reviews, charts of accounts, organizational charts, and accounting systems descriptions, as necessary to complete the required work.

Chapters 1 through 5 of Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision).


Assessing Compliance With Applicable Laws and Regulations issued by the General Accounting Office.

2.2 Fund Accountability Statement

The opinion on the fund accountability statement is to be in accordance with AICPA Statement on Auditing Standards (SAS) AU 623 (SAS No. 62). The fund accountability statement should provide separate identification of those revenues and costs applicable to each specific USAID grant, project, or loan but should not include counterpart contributions provided from the organization's own funds or from other sources. Also, the fund accountability statement should not include the cost of USAID direct procurement of vehicles, equipment, commodities, and technical assistance provided by USAID to the recipient organization. However, the audit will include steps and procedures to verify that direct USAID procured commodities are accounted for and control procedures exist and have been placed in operation to adequately safeguard such commodities.
Our scope included:

(i) an examination of the fund accountability statement including budgeted amounts by category and major item; the costs reported by the implementing institution and the revenues received for the period.

(ii) an evaluation of project implementation action and accomplishment to specifically determine that costs incurred are allowable, allocable and reasonable under the agreement terms.

(iii) a review of direct and indirect costs billed to and reimbursed by USAID identifying and quantifying questioned costs. Any costs which are not supported with adequate documentation or not in accordance with applicable agreement terms should be questioned and included as findings in the reports on internal control and compliance.

(iv) a review of general ledgers and project ledgers to determine whether costs incurred were properly recorded.

(v) a review of procedures used to control USAID funds including a review of bank accounts and controls on those bank accounts.

(vi) the determination of whether advances of funds were justified with documentation including reconciliation of funds advanced, disbursed and available.

(vii) the determination of whether project reimbursements, representing recoveries of direct and indirect costs, are recorded as income or as credits to project cost accounts. If any revenue was earned by the organization from project funding, the amounts should be questioned if not credited as reductions to the project's costs or used to further the project's objectives.

(viii) a review of procurement procedures to determine that sound commercial practices including competition were used, reasonable prices were obtained and there were adequate controls on the quality of services received.
(ix) a review of direct salary charges to determine whether salary rates are reasonable for that position, in accordance with those approved by USAID, and supported by appropriate payroll records. Determine if overtime is charged to the project and whether it is allowable under the terms of the agreement.

(x) a review of travel and transportation charges to determine whether they are adequately supported and approved. Travel charges which are not supported with adequate documentation and/or not in accordance with agreements and regulations should be questioned.

2.3 Internal Control Structure
Our scope included:

(i) a review and an evaluation of the organization's internal control structure to obtain a sufficient understanding of the design and the relevant control policies and procedures and whether those policies and procedures have been placed in operation.

(ii) identification of the significant categories of the internal control structure; significant deficiencies in the design or operation of the internal control structure; and any conditions considered to be material weaknesses.

(iii) an evaluation of the adequacy of the accounting and information systems, procurement procedures and practices, bank account controls, and controls to assure that charges to the project are proper and supported.

(iv) an assessment of control risk, which is the effectiveness of the entity's internal control structure policies and procedures in preventing or detecting material misstatements in the fund accountability statement.

2.4 Compliance with Agreement Terms and Applicable Laws and Regulations
In fulfilling the audit requirement to determine compliance, in all material respects, with agreement terms and applicable laws and regulations, we followed at a minimum, guidance contained in AICPA Statement on Auditing Standards AU 801 (SAS No. 68) entitled ‘Compliance
Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance®. In planning and conducting tasks of compliance we:

(i) identified the agreement terms and pertinent laws and regulations, and determined which of those if not observed could have a direct and material effect on the fund accountability statement.

(ii) assessed for each material requirement, the risk that material non-compliance could occur. This included consideration and assessment of the internal controls in place to assure compliance with laws and regulations.

(iii) designed audit steps and procedures to test for errors, irregularities, and illegal acts that provide reasonable assurance of detecting both unintentional and intentional instances of non-compliance with agreement terms and applicable laws and regulations that could have a material effect on the fund accountability statement.

(iv) determined if payments have been made in accordance with agreement terms and applicable laws and regulations.

(v) determined if funds have been expended for purposes not authorized or not in accordance with applicable agreement terms.

(vi) identified any costs not considered appropriate explaining why these costs are questioned.

(vii) determined if the counterpart and/or the matching funds and technical assistance, as applicable, were obtained according to the agreement and to the project needs. Quantify any shortcomings in this area.

(viii) determined that those who received services and benefits were eligible to receive them.
(ix) determined whether financial reports and claims for advance and reimbursement contain information that is supported by the books and records from which the fund accountability statement is prepared.

C. Summary of Audit Results (Financial, Internal Controls and Compliance)

Summary of recommendations

(i) A further review of bank transfers should be undertaken to confirm authenticity of all direct bank payments not supported by originating documents, payments vouchers and third party invoices, receipts and other documents.

(ii) USAID should, in any future program, require grantees to open both foreign currency bank accounts and cedi denominated bank accounts and maintain separate books and records on respective transactions carried out in local and foreign currencies. Further, grantees should be required to adhere to a policy of retaining minimum amounts of cash on hand as Imprest. Crossed cheques should be used for payments of major transactions.

(iii) University of Science and Technology School of Mines should seek and USAID may grant retrospective approval for regularization of entertainment costs amounting to GH¢847,236. (S$492.43).

(iv) Per diem claims amounting to c930,000 (S$427.73) in respect of travels not supported by approved Prior Authorization to Travel, may be recovered from the Project Accountant and Driver.

(v) Before the project close-out, bank statements for the project should be reconciled on a monthly basis and all the outstanding items investigated or cleared to ensure that any errors, omissions and other irregularities have not gone undetected or remained outstanding.

(vi) Items of equipment, tools or other property purchased for USAID projects should be properly identified with USAID or other project property marks to segregate them from similar equipment owned by grantee and minimize chances of loss or damage to equipment and tools without detection. Unserviceable items record should also be kept.
(vii) AID in Washington D.C. should be advised to institute appropriate action to pursue recovery of an amount of $401.25 plus interest from Warkfactor Computers of Socorro, New Mexico, USA, for non-delivery of printer and computer accessories.

(viii) At the start of every project the Project Accountant and other administrative staff should be taken through an orientation course where USAID’s governing rules, regulations, reporting formats and records required to be maintained would be introduced or made known to the implementing agencies to ensure proper rendition of accounts in the manner required by project terms.

(ix) The role of Institutional internal audit units involved in internal oversight roles in USAID funded projects should be clearly stated in project documents to ensure optimal performance of their expected roles in project execution.

(x) A change in policy on treatment of interest earned on project funds was not communicated to the project administrators. Procedures should be put in place by USAID/Ghana to ensure that changes in policy are promptly communicated to all agencies implementing USAID funded projects and programs.

2.0 Summary of findings

(i) Instruction letters for fund transfers totaling $26,557.98 could not be made readily available for reconciliation with transaction entries on bank statements. Payment vouchers and third party documentation were not made available to us in respect of these transactions to enable us verify and substantiate the authenticity of the transfers.

(ii) Project expenditure of $257,817 (S495) pre-financed by University of Science and Technology School of Mines could not be supported by any appropriate expenditure receipts, which were said to be missing. Moreover we could not segregate related vouchers and receipts from the other project expenditure and receipts.
(iii) The absence of a local currency denominated bank account coupled with failure to determine monthly cash expenditure projections led to a situation where large cash holdings were kept on hand which did not match related or anticipated commitments. This resulted in reduced potential interest earnings and posed the risks of loss, misappropriation or misapplication of project funds.

(iv) Contrary to USAID regulations, unallowable entertainment costs amounting to C847,236 ($492,43) were incurred by the project without obtaining prior written approval from AID whether the cost would be allowed.

(v) Savings of C1,225,000 ($556,82) would have been made by the project if payment of travel per-diem in 1996 and 1997 to non-project staff had been made in conformity with prevailing University of Science and Technology School of Mines rules.

(vi) The accounting process in respect of an amount of C1,408,365 in unspent balances on job advances granted to some project officials was not clear.

(vii) There was inadequate office documentation on the engagement of temporary workers and the basis or authority for preparation of payment vouchers for their wages was also not adequately documented.

(viii) Between 1993 and 1997 eight bank statements were not received from the bank and there was no effective follow-up to obtain these for the reconciliation process. Contrary to University of Science and Technology School of Mines regulations bank reconciliation was not prepared monthly and reviewed by the Internal Auditor, giving rise to the possibility of errors and irregularities going undetected.

(ix) Thirty out of 83 Petty Cash Vouchers paid in 1996 reflecting amounts totaling C5,465,684 had not been signed by the recipients to authenticate receipt and utilization of the monies for project purposes.
(x) Transaction records were poorly arranged and books of account were not satisfactorily kept, a state of affairs attributed to inadequate briefing on the project accounting requirements and the engagement of part time Project Accountant.

(xi) Inventory records were incomplete. Project property and equipment were not adequately segregated from equipment belonging to University of Science and Technology School of Mines.

(xii) Computer accessories valued at $401.25 ordered and paid for from USA had been short delivered but the project has been unable to obtain a refund from the vendor.

(xiii) The quality of internal audit reviews of project records and activities was unsatisfactory in many respects. The unit did not review procedures adopted by the project for the procurement of goods and services, especially regarding discrepancies, shortages, claims and insurance, payments to illiterates and third parties, inventory control, travel procedures, review of budget variances and bank reconciliations.

D. Synopsis of Management Comments
Our findings were discussed with the Management of University of Science and Technology School of Mines and officials directly engaged on the project. Our report has taken account of the formal comments and responses made by Management regarding our observations.

Subsequent to our draft report the issue of questioned costs in respect of unclassified payments totaling $26,577.98 was again discussed with project management. It came out that the majority of respective third party receipts and documentation on the expenditure had been retained by the collaborating agency, New Mexico Institute of Mining and Technology, (NMT) for their own internal accounting purposes. NMT had acted as a procurement agency for the project and this had been found convenient as the Co-principal Investigator had served as the courier for delivery of procured items whenever he was visiting the project in Ghana.

Although management later showed us some receipts they were not sorted and we could not examine them in detail. Though we took note of management’s explanations we still maintained
the view that the absence of the supporting documents rendered it impossible to classify and substantiate the relevant expenditure.

On the issue of entertainment costs incurred without prior written determination from USAID we accepted management's views that the expenditure was necessary for the success of the project and accordingly modified our recommendation to the effect that management should seek retrospective approval for the expenditure from USAID.

Detailed management responses to our observations are presented in Appendix I.

We take this opportunity to express our appreciation to the management and staff of University of Science and Technology School of Mines for their cooperation and assistance during the audit.

Yours faithfully,

For: AUDITOR-GENERAL

T. A. K. QUARTLEY

DATE: 2nd July, 1998
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<td>B. Fund Accountability Statement</td>
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<td>C. Notes to Fund Accountability Statement</td>
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<td>D. Findings</td>
<td>19-23</td>
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<td></td>
<td>E. Summary of Total Project Revenues and Costs</td>
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</tbody>
</table>
A. **Independent Auditor’s Report on Fund Accountability Statement**

We have audited the Fund Accountability Statement of University of Science and Technology School of Mines, Tarkwa, for the period September 27, 1990 to December 31, 1997. The Fund Accountability Statement is the responsibility of University of Science and Technology School of Mines. Our responsibility is to express an opinion on the fund statement based on our audit.

We conducted our audit of the Fund Accountability Statement in accordance with International Auditing Standards, United States Government Auditing Standards, issued by the Comptroller General of the United States and the USAID “Guidelines for Financial Audits Contracted by Foreign Recipients.” Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also include assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

The results of our tests disclosed questioned costs as detailed in the fund accountability statement: (1) $492,43 in costs that are explicitly ineligible because they are not program related, unreasonable, or prohibited by the terms of the agreements; and (2) $26,980.71 in costs that are not supported with adequate documentation or did not have required approvals or authorizations.

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the Fund Accountability Statement referred to above presents fairly, in all material respects, project revenues and costs incurred for the period September 27, 1990 to December 31, 1997 in accordance with the terms of the agreement and in conformity with the basis of accounting described in paragraph one of Notes to the Fund Accountability Statement.

This report is intended for the information of University of Science and Technology School of Mines and the USAID. However, upon acceptance by the AID Office of the Inspector General, this report is a matter of public record and its distribution is not limited.

For: AUDITOR-GENERAL

T. A. K. QuAltey

2nd July, 1998
### UNIVERSITY OF SCIENCE AND TECHNOLOGY SCHOOL OF MINES, TARKWA
### PROJECT IN SCIENCE AND TECHNOLOGY COOPERATION
### FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD
### OF 30 SEP 1990 TO 31 DEC. 1997

#### RECEIPTS

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<td>INTEREST EARNED</td>
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<td>TOTAL FUNDS AVAILABLE</td>
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#### DISBURSEMENTS

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<td>Page 18 Note 1(x) and</td>
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<td>Page 19 paragraph 2.0</td>
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<td>Page 18 Note 1(viii)</td>
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<td>Page 19 Note 1(xi)</td>
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</table>
Notes to the Fund Accountability Statement

Significant accounting policies and basis of presentation
The following is a summary of the significant accounting policies adopted in the preparation of the fund accountability statement which is presented on a modified cash basis, a basis consistent with internationally accepted accounting principles.

Revenues
(i) Revenues represent the USAID grant received under the research Project in Science and Technology Cooperation.

(ii) Interest revenue
Cumulative interest earned by the project totaled $1,459.38. This was applied towards project activities.

(iii) Savings on overall project cost
The total budget approved for the project was $149,699 out of which actual grants advanced for project activities amounted to $145,534.19. The grant advance was supplemented by the utilization of earned interest of $1,459.38 to bring total project expenditure to $146,993.57. There was therefore a savings of $4,168.81 on overall project cost.

(iv) Costs incurred
Costs incurred are stated on an accrual basis.

(V) Capital Expenditure and Depreciation
Capital expenditure is expended on a cash basis. Any assets acquired were fully written off at the end of the project.

(Vi) Foreign currency conversion
All transactions in foreign currency were translated into cedis at the exchange rates ruling at the date of transactions. Exchange rate in 1992 when the first project advance was received was $1 = cedi 490 and $1 = cedi 2,195 in 1997 when the project was concluded.
(vii) **Salaries**
Although the project was labour intensive the cost of labour was cheap, budgeted at $2 per head per day. Real growth in labour costs was minimal compared with the rate of depreciation of the local currency to other convertible currencies, especially from 1992. For example, gains in currency exchange rate of the US dollar to the Ghana Cedi progressed from $1 = ₦375 in 1990 to ₦2,195 at the end of 1997.

As a result, out of a total budget cost of $28,416 the actual expenditure on direct salaries during the project life amounted to $7,306.08 representing only 25.7% of the projected expenditure.

(viii) **Exchange loss**
The loss on exchange of foreign currency appearing in the statement is the reflection of the cumulative effect of periodic conversion and re-translation of cedi balances (e.g. at month-ends or year-ends) when financial statements or reports were being prepared and local currency expenditure had to be expressed in US dollars.

(ix) **Accrued expenses**
Accrued expenses or negative balance of funds as at 31 December 1997 included an amount of $20.50 representing the cost of fuel purchased for the project vehicle which could not be reimbursed at the end of the project because there were no funds in the project account.

(x) **Unclassified payments**
This represents payments that could not be properly classified by us under ‘Equipment, Materials and Supplies, Travels or Direct Expenses’. The related transaction documents did not afford sufficient clarity to permit their precise classification.
(xi) **Undisclosed liability**

The Fund Accountability Statement does not include undisclosed liability in respect of repairs of the project vehicle as the exact estimate of the cost was not available at the time of our audit. We were informed this might be approximately $3,000.00. The amount has however been noted under accrued expenses.

**Findings**

1.0 The results of our tests disclosed the following questioned costs as detailed in the Fund Accountability Statement.

2.0 **Unclassified payments**

The foreign exchange account operated by the project did not have a cheque book. All withdrawals and fund transfer instructions were effected through letters signed by the signatories to the account. We found that the Accountant did not retain copies of all the instructions. The Principal Investigator who prepared the instructions on his personal computer did not keep hard copies of them. Neither did he retain all the instructions on his computer permanently. We were unable to obtain all relevant print-outs from the Principal investigator because his printer was faulty.

In view of the existing situation we could not reconcile all the instructions issued to the transaction entries reflected on the bank statements. These included direct debits for money orders, travellers cheques and Bank of Ghana drafts relating to fund transfers to the Co-Principal Investigator in New Mexico, USA in settlement of computer equipment and other supplies, charges for laboratory analysis of soil and rock samples or refunds for expenses said to have been incurred by the Co-Principal Investigator.

We sighted only a few of the source documents originating the said transactions or authenticating those transfers. We however did not see any payment vouchers raised by the Project Accountant in respect of these transactions. The total transaction amount we could not confirm was $26,557.98.
Although it was claimed by the Principal Investigator and Project Accountant that appropriate expenditure receipts were obtained for these transactions they were not filed and submitted for our scrutiny to confirm the transactions. The Principal Investigator indicated that transfers made to New Mexico were paid to New Mexico’s USAID accounts hence the third party documentation and receipts were submitted to that Accounting Office.

We stressed in response that payment for services, materials or equipment acquired are required to be substantiated by relevant payment vouchers and third party documentation since these do not only attest the authenticity of the payments made but also facilitate classification of the payment to the appropriate expenditure account in the ledgers.

2.1 **Recommendation**

We recommend a further review of records that could not be submitted for our audit to confirm authenticity of all the bank transfers not supported by payment vouchers and third party documentation, to establish their legality and appropriateness and also ensure that value was received by the project for such expenditure.

3.0 **Entertainment costs**

USAID Regulations regard entertainment expense as an "unallowable cost." (AID Handbook 13, Page 4D-2, Sub-para. (4). We found instances where entertainment costs had been incurred and paid by the project. The total amount incurred during the project life span was C847,236 ($492,43). We further noted that the Principal Investigator failed to obtain the Grant Officer's written determination as to whether the cost will be allowable, as required by paragraph (4) (b) of AID Handbook 13, Page 4D-2. We therefore questioned this expenditure as an "unallowable cost".

The Project's Principal Investigator was of the view that the expenditure was expedient and prudent since it assisted greatly in facilitating the research work, especially when vital assistance or information was required from third parties. He further stated that the amount was spent in line with the Ghanaian tradition of saying "thank you" to third parties that directly or indirectly immensely assisted in the project business. He was of the view that without this kind of third party assistance the progress of the project would have been impeded.
We recognize that entertainment of third parties as expression of appreciation for assistance and services rendered in lieu of honorarium can be justified in given circumstances such as the USAID project and that the expenditure therefore appeared to have been incurred in the best interest of the project. What could not be justified however was the failure to obtain a written determination as to whether the entertainment costs would be allowed. The Project Investigator informed us that from prior experience of non-response of the Project Officer, AID, Washington, he did not find it necessary to seek such authorization.

Although we considered the Principal Investigator's action to be inappropriate we found collaborative evidence showing cases of non-response and undue delays by AID, Washington, to matters referred by the Principal Investigator. We noted in this regard that periodic reports on the project sent by University of Science and Technology School of Mines to AID, Washington, were not acknowledged. We also noted that a request for authorization to travel was not responded to, a request for waiver to purchase a project vehicle in Ghana took 2 years to be approved, a request for a no-cost extension of the project life in 1995 took 3 months to be obtained, and that it usually took 2-3 months for requests for fund advances to be approved. Such delays in responding to correspondence and requests contributed to delays in project execution.

3.1 Recommendation

It is our view that in order to ensure compliance with USAID rules and the terms of project agreement it would be appropriate for University of Science and Technology School of Mines to request and A.I.D to grant to University of Science and Technology School of Mines retrospective approval to regularize the entertainment costs incurred.

We also recommend that in future projects, procedures for timely administrative actions should be put in place in order that undue delays would not impact negatively on project implementation and delivery time-tables.

We further recommend that AID, Washington should consider adopting a policy whereby during project formulation stages consultations may be held with its overseas missions and representatives in foreign countries so that account could be taken of any local customs, practices or cultural influences that if discounted may most likely retard or impact negatively on the progress of project execution and successful achievement of desired objectives and goals. In this
regard, where and when appropriate and sufficient justification has been provided and accepted the attendant costs may be incorporated into project budgets as part of indirect costs.

**Travel per diem**

Per-diem payable under the project was at a rate of $20 or its cedi equivalent for travels in Ghana. The rate was made to apply to project personnel only. All other supporting staff travelling on project assignments were paid per diem according to USTMS rates and this was charged against the project budget.

From 23 April 1996, University of Science and Technology School of Mines adopted an enhanced per diem rate of $50,000 per night. However, according to rules governing payment of the enhanced per diem, payment of the full rate was not to exceed 12 nights for any individual officer in a year, or 3 nights every quarter. Any extra nights payment were to be abated by 50% and no officer was to be paid 3 nights allowance on a single journey while drivers on official duties were entitled to payment of the allowance for 4 nights in a month. Moreover, all journeys were to receive prior authorization before being embarked upon or no allowances would be paid for such journeys. These rules therefore applied to all non-project staff assigned project duties involving travels outside Tarkwa.

We reviewed all 49 claims made by non-project staff from 23 April 1996 to 31 December 1997 for compliance with University of Science and Technology School of Mines rules on payment of the per diem. We found eight cases where per diem claims did not bear the relevant prior authorization to travel (Permission to Travel Form). Further, one non-project officer was paid full per diem rate for a total of 20 nights in 1996 and 65 nights in 1997.

This included instances of single journeys spanning 5 - 9 days or claims in a single month covering a total of between 5 to 13 days. In none of these cases was the claim abated by 50% for each of the extra days as was the practice at University of Science and Technology School of Mines.

We noted that approximately $1,225,000 (G556,82) would have been saved for the project, out of payments totaling G5,150,000, if University of Science and Technology School of Mines rules had been properly applied to per diem payments made to the non-project staff. We were of the
opinion that C930,000 ($422.73) of this amount representing claims made for travels without prior authorization should be recovered from the officers involved.

In reaction to our findings, the Principal Investigator stated that the services of the non-project staff (a driver and the Project Accountant) had been essential to the project hence the non-insistence on the strict application of the abatement rule. Per-diem was paid to non-project personnel in conformity with University of Science and Technology School of Mines rules because non-project staff refused to assist in any kind of work if they did not get what was prevailing at the School. However, the non-project personnel in the interest of the project, did not claim certain allowances such as risk, overtime, cashier’s and sitting allowances prevailing at the School. In view of this, the Principal Investigator was of the view that the excess days fully claimed should be considered as justified.

The Principal Investigator also indicated that from the inception of the project although they often worked outside normal working hours there had not been any instance where the officers claimed overtime payment for work done and that all these actions were taken in the supreme interest of the project. He expressed the hope that in the light of the foregoing the omissions we have noted would be overlooked and any recovery action stayed.

4.1 **Recommendation**

In the light of the Principal Investigator's comments, we concur that claims for excess nights spent on duty may be waived but still maintain that the claims made for trips without prior approval may not be waived and may be considered for recovery by A.I.D in the amount of C930,000 ($422.73).
### SUMMARY OF TOTAL PROJECT REVENUES AND COSTS

<table>
<thead>
<tr>
<th></th>
<th>Budgeted Amount</th>
<th>Actual Exp.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Salaries</td>
<td>28,416</td>
<td>7,306.08</td>
</tr>
<tr>
<td>Equipment</td>
<td>19,900</td>
<td>23,886.64</td>
</tr>
<tr>
<td>Materials &amp; Supplies</td>
<td>35,229</td>
<td>23,122.30</td>
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<tr>
<td>Travel</td>
<td>53,867</td>
<td>53,528.56</td>
</tr>
<tr>
<td>Other Direct Costs</td>
<td>4,192</td>
<td>7,408.18</td>
</tr>
<tr>
<td>Indirect Costs</td>
<td>8,095</td>
<td>7,685.54</td>
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<tr>
<td>Unclassified costs</td>
<td>-</td>
<td>26,577.98</td>
</tr>
<tr>
<td>Exchange Loss</td>
<td>-</td>
<td>508.79</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$149,699</strong></td>
<td><strong>$150,024.07</strong></td>
</tr>
<tr>
<td>PART</td>
<td>CONTENTS</td>
<td>PAGE</td>
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<td><strong>INTERNAL CONTROL STRUCTURE</strong></td>
<td>25-38</td>
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<td>B. Findings</td>
<td>28-38</td>
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<td></td>
<td>C. Status of prior period audit recommendations</td>
<td>38</td>
</tr>
</tbody>
</table>
A. **Independent Auditor’s Report on Internal Control Structure**

We have audited the Fund Accountability Statement of the Project in Science and Technology Co-operation (PSTC) of University of Science and Technology School of Mines for the period of September 27, 1990 to December 31, 1997 and have issued our opinion thereon.

We conducted our audit in accordance with International Auditing Standards, US Government Auditing Standards, issued by the Comptroller General of the United States and the USAID ‘Guidelines for Financial Audits Contracted by Foreign Recipients’. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

In planning and performing our audit of the Fund Accountability Statement of the Project in Science and Technology Co-operation (PSTC) of the University of Science and Technology School of Mines we considered its internal control structure in order to determine the 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 University of Science and Technology School of Mines is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements 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; transactions are executed in accordance with management’s authorization and in accordance with the terms of the agreement, and transactions are recorded properly to permit the preparation of the fund accountability statement in conformity with the basis of accounting described in paragraph of Notes to the Fund Accountability Statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the structure to future periods are subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.
For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

(i) **Control Environment** which includes management's philosophy and operating style, the School's organizational structure and management's control method for monitoring and following up on performance.

(ii) **Accounting System** which consists of the methods and records established to identify, assemble, and analyze, classify, record and report transactions under the project and to maintain accountability for assets and liabilities.

(iii) **Control Procedures** which are those policies and procedures that management has established to provide reasonable assurance that specific objectives of the project will be achieved.

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

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that in our judgement, could adversely affect the school's ability to record, process, summarize and report financial data consistent with the assertions of management on the fund accountability statement.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement 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.

This report is intended for the information of the University of Science and Technology School of Mines and United States Agency for International Development.

For: AUDITOR-GENERAL

T. A. K. QUARTERLEY

2nd July, 1998
B.

1.0 Assessment of the control environment

From our review of the control environment we noted that apart from sanctioning travel requests by Project Personnel and countersigning fund transfer or withdrawal requests by the project, the Principal of the School did not play any other active role in the administration of the project, and for the most part the Principal Investigator remained the sole authority in charge of the project and disbursement of the funds. This situation in a number of cases led to the overriding of internal control procedures established within University of Science and Technology School of Mines system of administration. This included instances where the Principal Investigator either authorized and approved his own claims without reference to the Principal of University of Science and Technology School of Mines and referring his claim to the Co-Principal Investigator from New Mexico, USA, when the Co-Principal Investigator had no administrative authority at University of Science and Technology School of Mines and was merely visiting the project for collaborative work.

2.0 Expenses pre-financed by University of Science and Technology School of Mines

At the end of December 1992, the Project Cash book showed a credit balance of C257,817 and, again, at the end of December 1997 there was a credit balance of C45,000 in the cash book.

We were informed that before the project officially took off in 1992, the School pre-financed preliminary project work to the tune of C207,000. This reflected in the financial statement of University of Science and Technology School of Mines for 1991. Subsequently in 1992 the amount increased to C257,817. The Loan amount was not entered in the project cash book but the expenditures made out of the loan were, however, captured in the cash book. The loan obtained from the school was recovered from USAID grants, but this was also not shown in the cash book.

The project management explained that the loan was not given to the project as a lump sum hence no record of amount received was made in the books. Rather what reflected in University of Science and Technology School of Mines’ account at year-end was the balance of the accumulated expenses paid for by the School. The actual expenditure pre-financed by the School eventually aggregated C484,927. This was refunded by the project in August 1992.
We did not have the opportunity to review third party documentation relating to the transactions involved because the officer who first handled the accounting records had lost the file containing the relevant receipts.

3.0 **Holding of excessive cash balances**

Our examination of the Project cash book disclosed that the Accountant often held on to large cash balances even at year ends. The break down on yearly basis, average maximum cash balances, as well as year-end cash balances is as shown below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Maximum Cash Holding</th>
<th>Year End Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>£ 580,000</td>
<td>£ 115,309.65</td>
</tr>
<tr>
<td>1994</td>
<td>£ 1,181,374</td>
<td>£ 1,181,374</td>
</tr>
<tr>
<td>1995</td>
<td>£ 201,492</td>
<td>£ 589,263</td>
</tr>
<tr>
<td>1996</td>
<td>£ 3,474,194</td>
<td>£ 1,887,938</td>
</tr>
<tr>
<td>1997</td>
<td>£ 2,869,337</td>
<td>Nil</td>
</tr>
</tbody>
</table>

All local expenses were paid for by cash. No ceiling was set for cash payments and payments to be made by cheque. The last cash withdrawal amounting to $1,169.17 was made from the bank on 1st October 1997. This reduced the balance at bank to zero dollars.

We noted cases where certain cash withdrawals were made without any justification because such withdrawals did not have any pending commitments against them. For instance, at the beginning of January, 1997 cash on hand totaled £1,887,937. This amount was sufficient for the settlement of expenditure of £748,600 incurred during that month. Despite such a huge amount of cash on hand, another amount of £1,730,000 was withdrawn from the bank on 7th January, 1997. The resultant effect was that at the close of the month of January an amount of £2,869,337.99 was shown as cash in the safe of the Project. Expenditure for February 1997 totaled only £511,970. Between May and November 1997, month-end cash holdings always exceeded £1 million.
The practice of holding huge cash balances could be attributable to lack of yearly cash flow statements from which monthly cash projections could have been used as the basis for cash withdrawals. Again, the Project operated a single bank account which was foreign currency denominated. In this connection, the Accountant could not therefore lodge cash holdings found to be surplus to immediate operational requirements into that account unless this was reconverted to US dollars at the risk of incurring an exchange loss.

We expressed concern about the huge cash holdings by the Project Accountant as this exposed project funds to risks of misappropriation, loss and possible misapplication of project funds. These risks were heightened as we did not find evidence of any periodic and independent cash count during the life of the project. Again, by this practice the Project was denied interest income which could have accrued if such excess cash holdings had been retained in the bank account.

The Principal Investigator contended that the USAID financial analyst from Abidjan did not specify the need for a cedi denominated account hence the project did not open one. He also held the view that monies withdrawn in cedis from the bank were not excessive since they matched the project’s commitments in field work and other immediate requirements for cash. He explained that most of the cash balances appearing in the book at month ends had been given out as job advances which had not been accounted for hence the reflection of large unspent balances.

3.1 

**Recommendation**

The above explanations notwithstanding we still maintain our view that holding of large cash balances was risky. We therefore recommend that, USAID should in any future program require recipients to open two types of bank account – United States Dollar account and local currency account. Separate cash books and records should be maintained for their respective transactions. Again, grantees should be required to adhere to a policy of retaining a minimum amount of cash on hand as imprest. The use of crossed cheques for payments of major transactions and regular banking of project funds could thus be pursued.
4.0 Unsatisfactory liquidation of advances

The project developed a system whereby for expedient performance of project activities, certain moneys representing the estimated expenditure to be incurred on behalf of the project, were disbursed to project officials upon authorization by the Principal Investigator. Special pre-numbered forms known as Job Advance Forms were printed for this purpose.

Each disbursement was considered as a separate advance to be accounted for subsequently with appropriate expenditure receipts when the money had been spent. The Project Accountant prepared a Petty Cash Voucher (PCV) in support of each advance taken wherever account thereof was rendered to him. He quoted the serial number of the PCV on the Job Advance Form to which he attached the supporting receipts, for easy reconciliation of the advance and the actual account rendered. Unutilized balances were surrendered and excess expenditure was refunded.

We noted in a sample test that on a number of occasions unspent balances of cash advances were not surrendered to the Project Accountant. The Project Officers retained these moneys, ostensibly to be used for further project work. However, expenditure receipts they rendered to the Accountant for such subsequent expenses and PCVs issued by the Accountant were not cross-referenced to the original Job Advance Form.

The Project Accountant claimed that the unsurrendered portions of all Job Advances given out had been accounted for by the officers concerned and formed part of the project expenditure receipts examined by us. However, there was inadequate cross-referencing of Job Advances and PCVs to enable us establish this fact. As such it was impossible for us to track and completely satisfy ourselves as to the discharge of such advances and their full utilization for project work.

We noted 25 examples of this occurrence of unsatisfactory liquidation of job advances, involving unspent balances aggregating £1,408,353.00.

In their response Project Management insisted that all job advances given out had been accounted for. We were nevertheless of the view that the practice entailed a material risk of loss due to the poor referencing of expenditure acquittal by the Accountant.
4.1 **Recommendation**

If such a system would be used again elsewhere in future we would recommend that the Project Accountant should promptly retire each Job Advance not utilized in full and then issue out the unspent balance as a new job advance to the officer requiring further use of the money so that the unspent balance would also be accounted for separately.

5.0 **Salary payment to temporary workers**

We reviewed direct salary charges to determine whether salary rates were reasonable and supported by appropriate payroll records. We noted that there was inadequate office documentation on the engagement or contracting process for temporary workers. The authority for preparation of payment vouchers for their wages was also not adequately documented. We also observed instances where the payment of wages charged was not supported by salary vouchers or acknowledgment receipts.

A random sample of 30 cases of payment of wages covering different dates showed that seven (7) payments totaling C807,000 were not supported with the relevant salary vouchers. Further, in one instance a total amount of C1,953,000 was received by William Duncan, one of the workers, on behalf of the gang of workers. In another instance, cash payments to workers totaling C46,400 were not signed for by the recipients.

The Principal Investigator in response insisted that the absence of proper salary vouchers notwithstanding, salary payments were duly made to the contracted workers who were locals already known to be involved in small scale mining activities. He said the gangs themselves decided that their leaders should sign and receive payments for them as some of them were normally in the field most of the time and University of Science and Technology School of Mines never received any complaint from the gang workers that they were not paid.

We nevertheless considered that these were lapses that could result in misappropriation, irregularity and loss of funds. Again the risk of funds not reaching recipient temporary staff for work done was also high.

5.1 **Recommendation**

We hold the view that it would be more appropriate if in future payroll vouchers were to be prepared for signature by all gang workers to authenticate payments made to them.
6.0 **Bank reconciliation statements**

Our review of the bank reconciliation statements of the project bank account disclosed material lapses in the control and records of the project funds. We did not find the following bank statements in relation to the project’s foreign exchange account in the records of the project:

- February 1993
- January 1994
- February 1994
- February 1997
- March 1993
- October 1994
- April 1996
- March 1997

In connection with the above, we did not find any documentary evidence confirming that efforts were made by the Project Investigator and Project Accountant to obtain these missing statements from the bank. We further noted that contrary to University of Science and Technology School of Mines financial regulations which require that bank reconciliation statement should be prepared monthly and reviewed by the Internal Audit Unit, the Project Accountant did not regularly prepare the Project bank reconciliation statements. The bank statements were prepared, in most cases, at the end of the year and occasionally when reimbursement of funds were being sought from AID. We also observed instances where the bank reconciliation statements were not reviewed by the internal Auditor.

As a result of these lapses, errors and irregularities could go undetected. In this connection, a purported bank transfer entered in the cash book totaling $229.20 could not be traced to any of the bank statements examined. Another supposed Bank Credit item amounting to $63.54 was not entered in the cash book since no reference could be made to any of the statements received from the bank. This amount remained uncleared at the end of 31 December 1997.

We therefore recommended that the Principal Investigator request the Bank to produce the missing bank statements for the Project Accountant to update the cash book and prepare the final bank reconciliation statement. The internal audit should then review the statement in order to reconcile the cash book balance with the bank account balance.
While University of Science and Technology School of Mines confirmed that the bank statements were not received they indicated that their inquiry showed that either the statements got lost through the post or went to the wrong persons who sometimes never gave them to the Project Accountant or Principal Investigator. In certain cases, the statements were redirected to the Project officers by the Principal. They further consulted the Barclays Bank Manager and Accountant at Tarkwa and were told that once the statement of accounts drops, it's difficult or almost impossible to generate another one.

The Accountant also explained that the bank reconciliation statements were not prepared regularly because the bank statements were not coming regularly every month. Some of the statements did not reach the accountant and attempts to obtain them from the Bank by the Principal Investigator did not receive any result. Further, the amount of $64.53 was a debit in the cash book but it was not indicated on the bank statement so he assumed that it was interest credited to the project account.

We found the explanations offered for inability to provide or secure the missing bank statements untenable and stressed the need for further effort at securing those statements for the clearing of the outstanding items.

We therefore recommended that the Project Accountant should endeavour to get the recipients to authenticate the transactions by appending their signatures to the PCVs. We have since our recommendation been informed that the PCVs have been signed by the recipients.

8.0 State of account books and records

Petty Cash Vouchers used as payment vouchers did not have related supporting documents attached to them. The supporting documents had been filed elsewhere with the PCV number indicated on them. PCVs were not arranged in sequential order all through. The cash book also contained quite a good number of cancellations and alterations. Accounts in the General ledger had not been summarized to indicate the cumulative balances at the end of December 1997. Transactions in dollars and in cedis were mixed and both posted to the same expenditure column in the cash book.
Some expenditure receipts and invoices remained unsorted and related transactions had not been covered by appropriate payment vouchers (PCVs). These had reflected though in the cash book as direct debits recorded from bank statements.

This state of affairs was blamed by the Principal Investigator and Project Accountant on the fact that the Accountant was only working part time on the project and also on the lack of necessary orientation and exposure to the nature and requirement of project accounts. The Accountant was handling the project’s accounts without any remuneration and this obviously had an adverse effect on his performance as entries and filing of records were delayed. The cumulative result of these was that vouching and tracing of petty cash vouchers to their source documents and the casting of total receipts to match the amount on the petty cash vouchers were greatly hampered and a lot of our time and effort was taken up by this exercise.

8.1 **Recommendation**

We recommend to USAID that in future Project Accountants should be given necessary and detailed orientation in the preparation and keeping of records of Project Accounts. Such personnel should also be given incentives to make them committed to their responsibilities. The necessary books and records should be prescribed or designed for each project when it starts up and at least once in a year, an independent auditor should be sent by the Grantor to inspect the project’s account books, records and review applicable procedures for early detection and correction of any lapses before they have significant impact on project execution and the fund accountability statement.

9.0 **Project inventories**

Our review of the equipment and other inventories of the Project disclosed lack of adequate records, controls and safeguards. We observed that even though inventory register was acquired for recording of equipment and other project items, the existing register could not be traced and entries of the items into a new register was done during the period of our audit. The new record, however, lacked details of values, dates of acquisition and dispositions of the properties. There were other items omitted from the register.
During the period of the Project implementation no register was opened to show movement of these assets. We further noted that, with the exception of the project vehicle, all equipment including computers acquired for the project did not have any distinctive marks or identifying decals to differentiate the Project assets from other equipment owned by the University of Science and Technology School of Mines. As a result of this, equipment or tools could get lost or be damaged without detection.

In connection with the above, we noted that a Pentax camera valued at $260.55 was missing and 1 PH meter was said to be in the custody of one of the project officers who is presently in USA but there was no record to that effect. Again some Wellington boots, drums and other implements had become unserviceable but although discarded, this had not been disclosed in the inventory records.

We were informed that inventory records at the time of audit was not found because the project official who handled that had travelled to the US for study. Inventory records were to have been handled by the Project Accountant who was a part-time and non-paid staff, but he did not perform this function and the project officers had to take it up themselves.

9.1 **Recommendation**

We recommend that even though the project has ended, once the close-out has not been performed the Principal Investigator should take steps to have all property acquired by the School through the project appropriately marked to distinguish them and University of Science and Technology School of Mines' own property in order to facilitate inventory verification.

10.0 **Non-delivery of printer ordered from New Mexico USA**

The project placed an order for a set of computer, printer and accessories through the Co-Principal Investigator in New Mexico, USA in December 1996. The vendor, Warkfactor Computers in Socorro, New Mexico, dispatched the items to Accra Airport but the printer, an HP 690 Deskjet valued at $329 and speakers for the PC worth $72.25 were short-delivered.

The Principal Investigator informed us that a report was made to the Co-investigator who notified the Vendor of the short-delivery. Warkfactor Computers allegedly contacted their insurance agency and obtained a refund for the cost of the printer, but did not remit this to
the project nor did they replace the speakers and printer. The Principal Investigator informed us that all efforts to trace the vendor to secure a refund have proved futile, and that the Co-Investigator is actively pursuing the matter in the USA.

We did not sight any documents covering this transaction as we were informed the documents were with the Clearing Agent in Accra.

In their response University of Science and Technology School of Mines confirmed the reported status and affirmed that the issue was still being pursued by the Co-Principal Investigator in New Mexico.

10.1 **Recommendation**

We recommend that A.I.D Office in Washington be advised to, if found feasible, pursue recovery of the total amount of $401.25 plus appropriate interest from Warkfactor Computers.

11.0 **Quality of internal audit reviews**

We were not satisfied with the extent of University of Science and Technology School of Mines Internal Audit Unit's involvement in the administration of the project. We were likewise not satisfied with the frequency and quality of their reviews of project records and expenditure which appeared to have been limited essentially to checking just the arithmetical accuracy of transactions and entries in the accounting records. In the few instances where corrective action was recommended by the Internal Audit Unit there was ineffective or no follow-up to ascertain extent of compliance.

Throughout the entire life of the project the Internal Audit Unit never had sight of or reviewed a copy of the project agreement to enable the unit to ensure Project-staff's compliance or correct deficiencies in complying with A.I.D and University of Science and Technology School of Mines rules and regulations concerning the running of the project. This was essentially because the Unit failed to make a request for the documents.

Although the unit carried out certification of Project Cumulative Disbursement Reports as well as verification and inspection of some purchases it failed to ensure that anomalies in liquidation of expenditure was properly resolved and that project equipment and purchased
Items had been properly and continually safeguarded. The unit did not review procedures adopted by the project for the procurement of goods and services, especially regarding discrepancies, shortages, claims and insurances, payments to illiterates and third parties, inventory control, travel procedures, review of budget variances, and bank reconciliation.

We therefore could not place reliance on the internal oversight function performed by the internal audit unit and had to perform extensive analysis and checks to test the internal control system relating to the administration of this project.

11.1 **Recommendation**

We recommend that institutional internal audit units required to play internal oversight roles in the administration of USAID funded projects should be briefed on their responsibilities which preferably should be documented and included in the project agreement.

**Status of prior period audit recommendations**

This requirement is not applicable to this report as the project had not ever been audited prior to this instance.
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A. **Independent Auditor’s Report on Compliance**

We have audited the Fund Accountability Statement of the USAID-PSTC research project of University of Science and Technology School of Mines for the cumulative period of September 27, 1990 to December 31, 1997 and have issued our opinion thereon dated June 1998.

We conducted our audit in accordance with International Auditing Standards, U.S. Government Auditing Standards issued by the Comptroller General of the United States and the USAID “Guidelines for Financial Audits Contracted by Foreign Recipients”. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with agreement terms and laws and regulations applicable to the University of Science and Technology School of Mines is the responsibility of the management of the University of Science and Technology School of Mines. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of compliance of the University of Science and Technology School of Mines with certain provisions of agreement terms and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our test of compliance disclosed the following material instance of noncompliance.

We considered these material instances of noncompliance in forming our opinion on whether the fund accountability statement of the USAID research Project of the University of Science and Technology School of Mines is presented fairly, in all material respects, in accordance with the terms of the agreements and in conformity with the basis of accounting described in paragraph 1 of the Notes to the fund accountability statement, and this report does not affect our report on the fund accountability statement.
This report is intended for the information of the University of Science and Technology School of Mines, the United States Agency for International Development.

For: AUDITOR-GENERAL

2nd July, 1998
Findings

1.0 Procurement
We reviewed procurement procedures to determine that sound commercial practices including competition were used, reasonable prices were obtained and there were adequate control on qualities and quantities received.

We found that procurement practices were varied for the particular procurement and for promoting the best interest of the program. Hence, procurement practices were largely informal and the standard procurement procedures of University of Science and Technology School of Mines were not always adhered to. Nevertheless, procurement practices were reasonable and in consonance with the AID Requirements ("AID Eligibility Rules For Goods and Service").

2.0 Financial Reporting
The Grantee did not comply with the requirement for quarterly liquidation of grant advances.

A.I.D rules require that each quarter, after the initial cash advance, the grantee shall submit to the AID Controller, Voucher SF 1034 (original) and SF 1034-A (3 copies) entitled “Public Voucher for Purchases and Services Other than Personal.” But the grantee prepared such reports only when the project required further cash advances. The report for the last advance taken in April 1997 had not been prepared at the time of our audit in January, 1998. The Grantee informed us that because the project had come to an end and University of Science and Technology School of Mines did not have an immediate intention to request for funds it had not yet prepared that report.

3.0 Travel requirements
We reviewed travel and transportation charges to determine that they were adequately supported and approved. The Principal Investigator made an effort to comply with Travel Regulations specified in the Project Document (Air Travel and Transport) (May, 1986). We noted however that AID/Washington did not respond to his travel request in 1993. Therefore, no further effort was made to comply with this regulation thereafter although the Principal
Investigator made four trips to New Mexico. The school’s travel rules were adopted for use subsequently

4.0 **Interest on Project funds**
The project agreement signed in 1990 permitted the retention of interest earned from grants deposited in bank accounts to be applied to meet project expenditure. The amount of $1,459.38 realised by the project was utilised in accordance with the agreement.

We noted however that in 1993, there was a USAID letter to the Ministry of Finance requiring that as a result of policy changes directed by the US General Accounting Office, interest earned on project funds should be returned to the United States Government. This new policy we found was not communicated to the project for compliance.

In our view the interest earned and applied to project activities should be allowed to stand as treated in the Fund Accountability Statement since the failure to communicate the new policy on interest earned was not of the making of the project administrators.

4.1 **Recommendation**
We recommended that procedures should be put in place by USAID/Ghana to ensure that changes in policy are promptly communicated to all agencies implementing USAID funded projects and programs.

4.2 **Status of prior period audit recommendations**
This requirement is not applicable to this report as the project had not ever been audited prior to this instance.
PART  V.  CONTENTS

MANAGEMENT ISSUES

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MANAGEMENT ISSUES
The following issues also arising out of our audit review of the project were deemed worthy of being referred for the attention of USAID/Ghana and RIG/Dakar as matters that may be relevant to future projects or other on-going projects/programs. They may be considered as lessons learnt or lessons to be learnt for improved project administration.

Summary of issues
There appeared to be the need for AID Washington to involve or define the role of country offices or country representatives in project formulation, planning and monitoring to ensure effective, timely and efficient management of projects. It was unclear what roles USAID/Ghana and REDSO (Abidjan) were to play in the administration of the project. Our information was that USAID/Ghana never visited the project site while it was on-going to ascertain the status and progress of the research work.

Formal communication channels need to be established between implementing agencies or project team, the AID Country Representative and AID, Washington, to resolve promptly any problems which may arise in implementation of projects. For example, it took two years to obtain a waiver to purchase a project vehicle in-country. This two-year delay in project start necessitated a two-year extension of the project.

The project agreement called for annual audits but no funds for this purpose was allocated in the project budget and for the seven years that the project lasted, no audit was carried out. The project officials were under the impression that it was USAID that would send the auditors and therefore waited in expectation. Provision for audit need to be more explicitly stated and should include budgetary allocation.

B.
1.0
Lack of clear definition of roles and authority levels
The Office of the Science Advisor, Program in Science and Technology Cooperation (PSTC) A.I.D. Washington, A.I.D. country offices in Ghana and Abidjan were all involved in various aspects of the administration of the project. We however did not sight any document defining the respective roles of the offices involved. This, among other things, resulted in delays in the decision-taking, approval and authorisation processes relating to project activities.
In connection with the above, we noted that the project encountered start-up problems because the USAID Projects Office in Accra, Ghana, was not made aware of Washington's intention to fund the project to allow USAID/Ghana to include this in their plans. USAID Ghana therefore showed some reluctance to get involved in the project. The expected level of supervision of the project including visits to the project site by officials of USAID/Ghana or REDSO Abidjan did not therefore materialize.

The administrative lapses noted had a negative impact on the project delivery time-table and compliance by the project with the rules and regulations in the agreement. For example, upon the approval of the project the Principal Investigator had to spend over a year making several trips to the offices of the US Ambassador to Ghana and USAID/Ghana before initial funds could be released. Again, the project provided that the Principal Investigator from University of Science and Technology School of Mines should make reciprocal trips to New Mexico Institute of Mining and Technology in Socorro, USA. When it was time for the first trip, the Principal Investigator wrote to PSTC, Washington, for travel authorization but did not receive any response. He claimed he subsequently contacted USAID/Ghana office and informed them of his intention to travel. He did not again bother to seek any written authority to travel since it was not clear which office was to approve his travel plans and request.

The issues raised above suggested that information flow on the project and the authorization to act or approve activities relating to the project were not clearly spelt out and circulated to the agencies involved in the administration of the project.

We are of the view that effective management of such a project requires that a clear definition be made of the roles of all offices/agencies involved in project planning, execution and monitoring.

We recommend that AID consider corrective action to ensure clear definition of roles of offices and agencies involved in the handling of projects and the level of authority to be exercised on its behalf by country offices or representatives in order to secure compliance with rules, regulations and laws governing all USAID funded projects.
2.0 Auditing of Project accounts and records

The project agreement enjoined the grantee to arrange for the audit of the grant by an independent auditor during the course of the grantee’s normal annual audit of the grantee’s organization. Copies of reports on such audit were to be furnished to AID for review. Where AID determined that the audit coverage was not adequate to verify the source and application of grant funds or the requirements of an independent audit a second audit would be performed by AID.

We observed that throughout the seven years of the project not even once were the accounts and records of the project audited until USAID/Ghana requested COGAS to carry out this audit.

We noted that University of Science and Technology School of Mines as an institution had its financial statements audited regularly by independent external auditors but they did not report on the project accounts because funds for the project were kept in a separate account and not co-mingled with funds of the school. In these circumstances the grant would fall outside the scope of review by external auditors unless the school authorities specifically requested for an audit of the project accounts. Since there was no provision for audit fees in the project budget it was assumed by the project officers that the Grantor would also appoint auditors for the project and fund audit costs. We noted that no arrangement was therefore made for the school’s annual audit to include a review of the project’s resources and activities by the external auditors.

The lack of annual audits which was contrary to the requirements of the agreement did not allow for timely corrective action to be taken on certain issues over the life-span of the project. We believe this is an area which requires remedial action in future agreements.
CONCLUSION

At the end of the project, the specific goals and overall objectives of the research work were said to have been achieved. The diamond hosting rock, the kimberlite rock, was discovered but this discovery was not patented. We were made to understand that the discovery was only an improvement on existing knowledge and no rock can be patented. A paper on ‘the diamond deposits of Ghana’ was prepared by the project officials and published in the Africa Geoscience Review, Vol.3, No.2. pp. 261-272, 1996. A final project report has also been issued to AID, Washington, since January 1998.

Photographic slides were prepared on aspects of the project work together with a video tape recording of the use of a more safe and suitable mining method developed by the project for small scale mining without ingesting mercury. The tape has already been screened on national television in Ghana and copies have been duplicated for dissemination to 37 other developing countries where small-scale mining is being practiced, using similar methods as in Ghana. The film gives credit to USAID and all persons or institutions that assisted in the process.

We were informed that the US Department of Agriculture and Food Security assisted in the making of the video film by providing and paying for the air ticket and part of the charges of a technician/camera man to come to Ghana to shoot and edit the film. Copies of the video film have been sent to the US Department of Agriculture and Food Security, UNIDO, the International Labour Organization (ILO), USAID/Ghana, and the Minerals Commission and Geological Survey Department in Ghana. Other copies have been sent to the Ministry of Mines in Kenya and Zimbabwe. Copies have also been made in the Spanish Language and a Portuguese version is soon to come out. We were further informed that the US Department of Agriculture has been so impressed with the film that it has voted a sum of $20,000 for the same type of film to be made in Brazil.

We are of the view that it is important for USAID to set up a monitoring mechanism to track the use of the video film and assess its impact for change in small scale mining activities in the countries where small scale miners have been using unsafe practices involving the ingesting of mercury.

2nd July, 1998
APPENDIX 1

MANAGEMENT’S COMMENTS
FROM: DR. H. APPIAH, PRINCIPAL INVESTIGATOR, USTSM

TO: MR. R. A. ASIEDU, TEAM LEADER

REF NO: GOGAS/USAID/USTSM/AO/1/98

SUBJECT: RE: INADEQUATE SUPPORTING EVIDENCE FOR SOME BANK TRANSACTIONS

DATE: APRIL, 1998

Instruction letters to the Bank for transfers totalling $26,557.98 could not be made available because at the time of audit the instruction letter to the Bank was only one copy. The letter itself was on the PI's computer and could not be generated due to the malfunction of the PI's computer. However, some of these instruction letters and other relevant documents have been attached. Third party documentation is not available because all transfers made to D.I Norman is paid into New Mexico Tech's USAID accounts and hence for all payments and purchases receipts are submitted to that Accounting office.

Signature

Date: 16th April 1998
FROM: DR. H. APPIAH, PRINCIPAL INVESTIGATOR, USTSM

TO: MR. R. A. ASIEDU, TEAM LEADER

REF NO: GOGAS/USAID/USTSM/AO/2/98

SUBJECT: RE: CASH BALANCES

DATE: APRIL, 1998

The project expenditure of ₵257,817 was pre-financed by UST School of Mines. The official receipt from the School is attached. At the time that the ₵257,817 was spent, the project had not refunded the amount due to the fact that the project was still not being funded by USAID. The amount of ₵257,817 is embodied in the receipt which reflects the total amount of project expenditure actually prefinanced by the School before project funds were received for the first time.

The USAID financial analyst from Abidjan did not specify the need for a cedi denominated account. Monies that were withdrawn in cedis were used regularly and judiciously hence the holding of "large sums" of money. These matched our commitments because in the field work, certain financial matters like workers needing monies at odd times or daily cropped up. Moreover, with the frequent change in dollar/cedi rate, we did not find it expedient to hold a cedi account.

[Handwritten note]

16th April 1998
FROM: DR. H. APPIAH, PRINCIPAL INVESTIGATOR, USTSM

TO: MR. R. A. ASIEDU, TEAM LEADER

REF: GOGAS/USAID/USTSM/AO/3/98

SUBJECT: RE: ENTERTAINMENT COSTS

DATE: APRIL, 1998

The amount of C°847,236 ($492.43) was spent for the business of the project in line with the Ghanaian tradition of saying "thank you" to third parties who directly or indirectly immensely assisted in the project business. Without these being of assistance, the project would not have made headway as it had progressed. From previous experience of non-response to letters from the Project Officer, USAID, Washington, the Principal Investigator did not find it necessary to write for prior determination. A case in point was the problem with the acquisition of field vehicle at the start of the project. It took two years to get written permission to purchase the vehicle.

[Signature]

16th April 1998
Per diem was paid to non-project personnel in conformity with USTSM rules because non-project staff refused to assist in any kind of work if they did not get what was prevailing at USTSM. The project personnel decided to sacrifice and hence took what had been put down in the project document. However, non-project personnel were not paid overtime when they worked outside normal working hours. All these were done in the interest of the project because certain allowances such as risk, overtime, cashier's and sitting allowances prevailing in the school were foregone by the non-project personnel. Therefore we are of the view that the excess days fully claimed should be taken as a justifiable claim.

The failure by the non-project staff to obtain prior permission for travels undertaken was due to the absence of the appropriate travel authorising officers. However, we confirm that those trips were actually made in pursuance of project activities.
FROM: DR. H. APPIAH, PRINCIPAL INVESTIGATOR, USTSM

TO: MR. R. A. ASIEDU, TEAM LEADER

REF NO: GOGAS/USAID/USTSM/AO/5/98

SUBJECT: RE: UNSATISFACTORY LIQUIDATION OF ADVANCES

DATE: APRIL, 1998

Unspent balances were normally kept for the next jobs to be executed because jobs kept going on in the villages.

[Signature]

16th April 1998
FROM: DR. H. APPIAH, PRINCIPAL INVESTIGATOR, USTSM

TO: MR. R. A. ASIEDU, TEAM LEADER

REF NO: GUGAS/USAID/USTSM/AO/7/98

SUBJECT: RE: BANK ACCOUNT AND BANK RECONCILIATION STATEMENTS

DATE: APRIL, 1998

The Bank statements were truly not received. An enquiry showed that either the statements got lost through the post or went to the wrong persons who sometimes never gave them to the Project Accountant or PI. In certain cases, the statements were redirected to us by the Principal.

After consultation with the Barclays Bank Manager and Accountant, I was told that once the statement of accounts drops, it's difficult or almost impossible to generate another one.

The Bank Reconciliation Statements were not prepared regularly because the Bank statements were not coming regularly every month. Some of the statements did not reach the accountant and attempts to obtain them from the Bank by the Principal Investigator did not receive any response.

The amount of $64.53 was a debit in the cash bank but it was not stated on the Bank Statement so it was assumed to be bank interest credited to the account.

[Signature]
16th April 1998
FROM: DR. H. APPIAH, PRINCIPAL INVESTIGATOR, USTSM

TO: MR. R. A. ASIEDU, TEAM LEADER

REF NO: GOGAS/USAID/USTSM/08/98

SUBJECT: RE: PROJECT INVENTORIES

DATE: APRIL, 1998

Inventory records at the time of audit was not found because the project official who handled that had travelled to the USA for study. Inventory records were to be handled by the Project Accountant who was a part-time and non-paid staff.

16th April 1998
FROM:  DR. H. APPIAH, PRINCIPAL INVESTIGATOR, USTSM  

TO:  MR. R. A. ASIEDU, TEAM LEADER  

REF NO:  GOGAS/USAID/USTSM/AO/9/98  

SUBJECT:  RE: NON-DELIVERY OF PRINTER ORDERED FROM NEW MEXICO USA  

DATE:  APRIL, 1998  

This matter is true and it is still being pursued the Co-Principal Investigator in New Mexico.

[Signature]

16th April 1998
FROM:        DR. H. APPIAH, PRINCIPAL INVESTIGATOR, USTSM

TO:          MR. R. A. ASIEDU, TEAM LEADER

REF NO:      GOGAS/USAID/USTSM/Λ0/10/98

SUBJECT:     RE: ARRANGEMENT OF TRANSACTION RECORDS
              AND STATE OF BOOKS OF ACCOUNTS

DATE:        APRIL, 1998


This has been due to lack of an orientation course at the beginning of the project for those who are involved directly or indirectly in the project. This will be necessary in future.

Sincerely,

[Signature]

16th April 1998

cc: response.doc