

4/28/80

MEMORANDUM

TO : RIG/A/W, Mr. George L. DeMarco

FROM : AA/DS (Acting), Stephen Joseph ¹⁵¹

SUBJECT : Memorandum Audit Report No. 81-37, "Review of Family Planning International Assistance at Selected Overseas Locations." Grant No. AID/pha-G-1131

REFERENCE: DeMarco/Joseph Memorandum dated January 30, 1981

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The audit report contains four recommendations. These are listed below with corresponding DSB responses. It should be noted in reviewing the recommendations that, in all cases, corrective actions were taken by the grantee between the initiation of the audit and issuance of the referenced Memorandum on January 30, 1981.

Recommendation No. 1

"The Bureau for Development Support's Office of Population should urge Family Planning International to intensify supervision of the standard commodity accounting system."

Prior to the issuance of the audit report, Family Planning International Assistance (FPIA) had strengthened supervision of its standard commodity accounting system. FPIA's Procurement and Distribution staff increased the number and frequency of commodity monitoring and accounting field trips, drafted new monitoring guidelines for subgrantee use and initiated on-site training for subgrantees during site visits made by FPIA New York and Regional Office Officials.

FPIA also convened a meeting in New York in February 1981. This meeting reviewed current policies/procedures and laid the groundwork for further revision and strengthening of FPIA's commodity operations.

Between March and September 1981, FPIA expects to further revise its commodities procedures manual, finalize site-visit commodity guidelines and revise project progress report formats to better track commodities.

Recommendation No. 2

"Require Family Planning International to establish minimum bookkeeping standards for subgrantees."

FPIA already has taken steps to meet this recommendation. FPIA established appropriate bookkeeping standards and prepared a draft bookkeeping manual. This manual is lengthy and is being edited down to no more than a 10-15 page pamphlet. Towards this end, FPIA's Grant Management Staff made several field trips to determine the acceptability and utility of the revised draft manual. Work is currently in progress and the edited version of the manual will be available by 30 June 1981.

Recommendation No. 3

"Urge Family Planning International to intensify its monitoring of subgrantee's financial accounts."

FPIA has been most responsive to this recommendation. FPIA's regional staff currently includes a qualified individual in each of the four regions, whose primary function is financial monitoring of subgrantees. Two of these positions are new and two have been reorganized. All of the individuals are on board. These individuals have and will continue to visit subgrantees to ensure that adequate subgrantee financial records are being maintained, and that they meet audit standards.

Recommendation No. 4

"Urge Family Planning International to enforce acceptable cash management procedures for the East Asia and South Pacific Office."

The situation described in the audit report was unique to the East Asia and South Pacific Regional Office (EASPRO). As indicated in the audit, FPIA dollar transfers were directed to one bank, dollar withdrawals were made and then were converted to pesos deposited in another bank. Inadequate documentation existed with regard to these dollar/peso transactions. FPIA resolved this situation as follows: a) a single bank currently is being used for all transactions; b) adequate documentation, including exchange rates, is being kept with regard to all dollar/peso transactions; and c) cash management procedures have been established in accordance with acceptable accounting procedures reviewed and approved by FPIA's Director of Grant Management.

The Bureau for Development Support's Office of Population believes that FPIA has been responsive to all of the recommendations. With actions already taken and those in progress, we believe FPIA's commodity and financial operations have been strengthened.

Accordingly, we believe that FPIA has complied with the intent of the foregoing recommendations and suggest that the recommendations be closed. The above referenced guidelines, handbooks and accounting documents are being forwarded to your office under separate cover.

memorandum

DATE: January 30, 1981

REPLY TO
ATTN OF: RIG/A/W, George L. DeMarco

SUBJECT: Memorandum Audit Report No. 81-37, Review of Family Planning International Assistance at Selected Overseas Locations

TO: AA/DS, Mr. Stephen C. Joseph, Acting

File No. 210-04
Action: DS/PC
for AA/OS
Signature
Date: 2/24
Joseph
CA

Introduction

We have made an audit of Family Planning International Assistance in selected overseas locations. The audit disclosed deficiencies in commodity and financial accounting and cash management. In our opinion, Family Planning International can correct these deficiencies through increased supervision of field operations.

Background

Family Planning International Assistance is a division of the Planned Parenthood Federation of America. It was founded in 1971 in response to an AID requirement for more intermediaries to deliver family planning services overseas. Goals were to encourage fertility control by making all means of contraception including sterilization accessible to everyone and to support the family planning programs of international organizations.

AID's first grant to Family Planning International (AID/csd-3289) was \$13.5 million; it covered the 51-month period from July 1, 1971, to September 30, 1975. A one-year \$3.5 million grant (AID/pha-C-1131) followed. The second grant was amended from time to time and is now slated to expire in December 1981. Total estimated cost is \$64.5 million.

AID has supplemented dollar grants with in-kind contributions of pills, condoms, and other commodities. Since 1971, in-kind commodity contributions have totaled \$14.8 million, bringing total AID support of the program to \$79.8 million. Over the years, support from other donors has ranged from \$10,000 annually in the early years to \$120,000 in 1980.

Family Planning International is currently active in 63 countries. It assists 750 institutions with commodity, financial, and technical support. Since 1971, it has distributed 60.8 million cycles of pills, 318.8 million condoms, 2 million IUDs, and 25,000 medical kits.

Family Planning International's staff grew with the program. In 1976, the staff numbered 27. By 1980, it had grown to 71. Regional offices have been established to help the home office manage the program.



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In the course of our preliminary work, we noted certain discrepancies in travel expense vouchers submitted by members of the home office staff. These matters were reported to the Grant Office in our memo of August 8, 1980, and according to Family Planning International officials, appropriate adjustments were made.

At the request of the Bureau for Service and Program Management's Office of Contract Management, we included in our audit a review of home office overhead computations for 1975 and 1976. Results were reported separately in Audit Report No. 80-52, April 28, 1980.

The primary purpose of this audit was to evaluate selected financial and commodity accounting records kept by regional offices and subgrantees. In addition to limited work at the home office, our examination included work at the regional offices in Manila and Dacca, three subgrantees in Thailand, three in Bangladesh, and two in the Philippines. Estimated resources of the selected activities totaled \$4.9 million.

Our audit included tests of selected financial and commodity accounting records and reports and related supporting documents for the more current periods in which the selected regional offices and subgrantees were active. The audit covered transactions occurring between February 1, 1977, and February 29, 1980.

Subgrantees Need More Guidance On Commodity Accounting

Three of the eight subgrantees covered in our review were seriously deficient in commodity accounting. In our opinion, the deficiencies are traceable largely to inadequate supervision by Family Planning International. The effect is significant because unreliable commodity data distort the calculation of future commodity requirements.

Two of the deficient subgrantees were in Thailand. One manages the Voluntary Sterilization Project. This project was initiated to encourage private medical institutions to support family planning. Family Planning International's procedures required the subgrantee to report on progress every 4 months. The report includes a section on inventory and commodity utilization.

A series of progress reports submitted to Family Planning International's home office between February 1, 1978, and December 31, 1979, showed that 180,000 condoms had been received and were available for distribution. The same series of reports showed that 254,000 condoms had been distributed. Monitors in Family Planning International's home office did not try to resolve the unexplained difference of 74,000 condoms. The public accounting firm's audit reports on the subgrantee ignored the matter.

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The other deficient subgrantee in Thailand manages the Nursing Volunteer Contraceptive Delivery Project. This project was initiated in January 1977 to help the Nurses Association of Thailand set up a delivery system for family planning services.

The subgrantee for the Nursing Volunteers Project keeps no perpetual inventory records. Distribution records are not up-to-date. Such records as are available are unreliable.

For example, project records show that 868,200 cycles of oral contraceptives were available for distribution between February 15, 1977, and February 14, 1980. The records also show that 868,200 cycles were distributed which should leave a zero balance. But the progress report for the period ended February 14, 1980, showed an ending inventory of 108,000 cycles. This error was subsequently noted and questioned by Family Planning International regional officials in Manila.

According to the records, 227,986 condoms were available for distribution between February 15, 1977, and May 31, 1980. The records show that 172,840 condoms were distributed during that period. That should leave a balance on hand of 50,056 condoms. We were told that no condoms were on hand as of June 2, 1980.

The third deficient subgrantee is in Bangladesh. The Bangladesh Concerned Women for Family Planning Project was initiated to undertake intensive door-to-door distribution of contraceptives in Dacca and the surrounding area. During the period from January 1, 1978, through December 31, 1979, Family Planning International has provided the subgrantee with about \$90,000 worth of contraceptives.

Most of the progress reports we reviewed for periods between January 1, 1978, and December 31, 1979, contained significant errors in the commodity section. Receipts shown in 1978 progress reports do not agree with the subgrantee's records; distribution figures in 1979 progress reports do not agree with the subgrantee's distribution records.

Officials of Family Planning International believe the problem with this subgrantee is that several donors provided commodities for this project, but the subgrantee did not keep separate records. The officials also said that commodity shipments to this subgrantee had been suspended in 1979.

In an earlier audit of fertility commodities (Audit Report No. 79-36, February 1979), we reported serious deficiencies in commodity accounting and recommended measures to correct them. One such recommendation called for AID to set minimum standards to control and account for commodities provided to intermediaries such as Family Planning International. AID's reply said that Family Planning International's statement of operating policy "adequately covers our recommended guidelines."

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Conclusions and Recommendations

Family Planning International has developed procedures and guidelines for commodity assistance. In our opinion, the main reason why commodity accounting problems persist is that use of the procedures and guidelines is not adequately supervised.

Recommendation No. 1

The Bureau for Development Support's Office of Population should urge Family Planning International to intensify supervision of the standard commodity accounting system.

Subgrantee Needs Help With Financial Accounting

One subgrantee kept almost no financial records at all. Reasons were inadequately trained accounting personnel, inadequate guidance from the home office, and infrequent monitoring. Results were meaningless financial reports and some loss of financial control.

As of February 1980, Family Planning International had obligated \$334,000 for the Nursing Volunteer Project in Thailand. Of that figure, \$227,390 had been remitted to the subgrantee; the subgrantee had spent \$175,000.

We have already described the problems this subgrantee had with commodity accounting. The financial accounting situation is about the same. The only financial record this subgrantee keeps is a checkbook. Every 4 months, the supporting documents for expenditures are summarized and posted to a worksheet that conforms to the report required by the home office. Once the report has been prepared, the worksheet is destroyed.

We tried to reconstruct the financial data needed to verify the report sent to the home office for the period October 15, 1979, through February 15, 1980. To do so, we enlisted the help of the accountant and treasurer and followed the method the accountant said he had used in making the original summary. Our summary showed expenditures well in excess of the figures reported to the home office. The subgrantee had reported total expenditures of \$19,661. Our figure came to \$27,557.

We reviewed the qualifications of the subgrantee's administrative staff and found them weak in accounting. Unqualified personnel increase the responsibility of the home office to provide effective guidance and monitoring. In this case, results indicate that both were inadequate. Home office records do not readily show the numbers of visits to a project, and who visited. As far as we could determine there had been two visits to the Nursing Volunteer Project since its start in 1977. Neither visitor was an accountant.

From what we learned, no qualified examiner from the Family Planning International organization ever reviewed this subgrantee's financial records. The financial accounting is unacceptable. Had that been noted, surely some action would have been taken.

Family Planning International officials said that they had little money to hire financial people and transport them to where they are needed.

Conclusions and Recommendations

Most subgrantees were doing an adequate job of keeping books. But the seriousness of the single exception leaves no doubt that corrective measures are necessary. Accordingly, the Bureau for Development Support's Office of Population should:

Recommendation No. 2

Require Family Planning International to establish minimum bookkeeping standards for subgrantees.

Recommendation No. 3

Urge Family Planning International to intensify its monitoring of subgrantee's financial accounts.

Regional Office Needs Better Cash Management

The East Asia and South Pacific Regional Office does not have satisfactory control over cash transactions. All responsibility for cash management is vested in the Director, and there are no countervailing checks and balances. The resulting exposure is an imprudent risk which could easily be reduced by simple records and controls.

The East Asia and South Pacific Regional Office was set up to monitor Family Planning International's activities in that region. The regional office is periodically advanced funds for operating expenses. The advance of funds - typically in the \$20,000 range - is primarily Family Planning International Assistance-owned funds, but some AID funds were included. AID reimburses Family Planning International for money expenditures made from the advance.

Family Planning International's home office remits dollars to the Manila Regional Office through Citibank New York. Citibank New York transfers the dollars to a convertible dollar account at Citibank Manila. The Citibank Manila account was opened in the name of the Director of the

regional office because the grantee's request for registration in the Philippines has not yet been signed by the President of the Philippines.

The home office is the primary source of dollar funds. Dollars are used to pay dollar operating expenses and buy local currency (pesos). Pesos are deposited in an account in the Metropolitan Bank and Trust Company of Manila and withdrawn as needed to pay peso operating expenses.

Check stubs are the only record of dollar transactions that the regional office keeps. Deposits and withdrawals entered in the check stubs are not clearly identified with source or payee. We tried to match all deposits to the convertible account since it was opened in August of 1979 with home office remittance advices. Ten deposits totaling \$16,000 did not match.

The Director of the regional office said that these 10 deposits came from her personal account in New York City. They were to reimburse funds she had withdrawn from the convertible account for her personal use. We tried to trace the 10 deposits to withdrawal entries in her personal checkbook, but some of them did not match. Efforts to reconcile the unmatched deposits were unsuccessful.

In the Philippines, licensed money changers pay more for dollars than banks do. The regional office does not keep a satisfactory record of currency exchange transactions. In some cases, we were able to trace peso deposits to withdrawals from the convertible account at bank rates; in others, we could not.

Conclusions and Recommendations

We have no evidence that poor cash management actually resulted in a loss. However, conditions were certainly favorable for a loss to occur. Were the funds entirely owned by Family Planning International our concern would be of a secondary nature. There were, however, some AID funds involved. Also, many of the expenditures from the Family Planning International-owned funds will ultimately be financed by AID. The almost complete lack of control over cash certainly invites currency manipulation and the abstraction of funds.

Recommendation No. 4

The Bureau for Development Support's Office of Population should urge Family Planning International to enforce acceptable cash management procedures for the East Asia and South Pacific Regional Officer.

LIST OF REPORT RECIPIENTS

Deputy Administrator	1
Assistant Administrator, Bureau for Development Support (DS)	5
Director, Office of Population (DS/POP)	5
Audit Liaison Officer, Bureau for Development Support (DS)	1
Bureau for Program and Management Services, Office of Contract Management (SER/CM)	3
Bureau for Private and Development Cooperation, Office of Private and Voluntary Cooperation (PDC/PVC)	5
Office of Legislative Affairs (LEG)	1
Office of Financial Management (FM)	1
Office of the General Counsel (GC)	1
Office of Development Information and Utilization (DS/DIU)	4
Office of the Inspector General (IG)	1
Office of Policy, Plans and Programs (IG/PPP)	1
Communications and Records Office (IG/EMS/C&R)	12
Area Inspector General/Washington (RIG/A/W)	1
Office of Investigations and Inspections (IG/II)	1