INDEX GENERAL

MEMORANDUM REPORT ON

ACCOUNTING SYSTFM PREAWARD SURVEY OF TWO VOLUNTARY ORGANIZATIONS FOR HEALTH (PVOH) PROJECT NO. 386-0469

AUDIT REPORT NO. 5-386-83-7

MAY 3, 1983

UNITED STATES GOVERNMENT

memorandum

DATE: May 3, 1983

REPLY TO ATTN OF: William L. Stanford - RIG/A, Karachi

SUBJECT: Memorandum Audit Report No. 5-386-83-7 Accounting System Preaward Survey of Two Prospective Subgrantees Under the Private Voluntary Organizations For Health (PVOH) Project, No. 386-0469

To: Ms. Priscilla M. Boughton, Director
USAID/India

INTRODUCTION

Under a Special Foreign Currency Appropriation, AID has provided the Government of India (GOI) with a $20 million equivalent grant in U.S.-owned Indian rupees. The purpose of the grant is to assist the GOI to expand and improve basic and special preventive health, family planning, and nutrition services to rural communities by strengthening the private and voluntary sector. A project agreement was signed on August 31, 1981. Project related activities are scheduled to be completed by September 30, 1987.

The grant will finance subgrants to about 10-15 private institutions to enable them to increase their capacity to deliver such services. The subgrants will be awarded by a grants committee on the basis of established eligibility and selection criteria. Funds will be released through an advance and replenishment arrangement with the Ministry of Health and Family Welfare.

The GOI is to contribute sufficient local currency to insure that project activities are carried out effectively and in a timely manner. In addition, the GOI shall insure that each individual subgrantee provides not less than 25 percent of the subgrant costs, including in-kind costs.

The mission requested we perform surveys to determine the adequacy of the financial records, controls and procedures of two proposed subgrantees: the Arya Vaidyan Rama Varier Educational Foundation of Ayurveda located at Coimbatore, and the Parivar Seva Sanstha (Family Service Association) - formerly known as Marie Stopes Society located in New Delhi. The surveys were performed in March 1983 in accompaniment with the project manager.

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Not all the records needed for our review were available at either organization. Overall, our review of the records available disclosed that the accounting system and procedures of the Coimbatore subgrantee were inadequate, but that those of the New Delhi subgrantee could be satisfactory if certain improvements are made in procurement procedures and the maintenance of inventory and property records. The details of our observations are presented below.

SURVEY FINDINGS AND CONCLUSIONS

A. Arya Vaidyan Rama Varier Educational Foundation of Ayurveda, Coimbatore

The Foundation is a registered society which runs a college and the International Institute of Ayurveda. It is controlled and managed by the Arya Vaidya Pharmacy (cbe) Limited, a company incorporated under the Indian companies act to manufacture ayurvedic (herbal) medicines and to carry out various other activities.

The accounting records and documents consist of: (a) a cash book and ledger for college transactions; (b) a consolidation ledger for head office transactions and incorporation of college transactions; (c) suppliers bills and vouchers; (d) inventory and property records; (e) budgets and bids; (f) receipt books; and (g) statements showing college transactions during the month. Because the college was closed for summer vacation, we were unable to examine the college cash book, property and procurement records, budgets, and receipt books. We are, therefore, unable to comment on the adequacy of these records. Review of other records disclosed they were not properly written and were not current. The details of our observations are furnished below:

- No cash book or journal was kept for head office transactions. The consolidation ledger in which payments from the head office are recorded was not brought up-to-date for the current 1982-83 financial year until our visit in March 1983.

  The earlier year's consolidation ledger was not properly maintained. Dates of transactions were not shown, entries or balances were in pencil, opening balances were not brought forward at the beginning of the year, and college expenditures and receipts were recorded in a corner of the ledger rather than in the debit or credit columns. The memorandum record of bank transactions was prepared only through September 14, 1982. As a result, it was not possible to prepare a bank reconciliation or a trial balance. There were no established procedures for preparing periodic financial reconciliations, or for reconciling property records with the financial records. We believe that lack of qualified staff may be the cause of this.

- The Foundation does not have internal auditors, nor does it have adequate control procedures over purchases and cash payment. There are no fixed limits on cash payments, vouchers for check payments are not prepared, and no order book was kept for procurements.

- Large amounts of Foundation funds have been used by the company which controls and manages the Foundation. As of March 31, 1982 (the latest date for which figures were available), the net amount owed the Foundation by the company was Rs. 69,864. We could not determine if any Foundation funds had been borrowed or used by the company subsequent to March 31, 1982 because the consolidation ledger for the current financial year had not been prepared. Because the company controls the Foundation, the possibility exists for the company to borrow subgrant funds should they be made available.

Finally, Foundation personnel were unable to furnish us with any definitive statements regarding the sources of funds required to meet the contribution of 25 percent for the project costs. We were merely told that the required funds would be made available over the life of the project either in cash or in kind, or through the services of employees and directors of the company.

According to the Foundation's proposal, total expenditures for the five-year project are estimated at Rs. 4.63 million. Of this amount, the foundation would be expected to make a life-of-project contribution of Rs. 1.16 million. An agreement annexed to the proposal states that the contribution would be met from unspecified public donations and financial support expected from the promoting company. However, Foundation financial statements show that most of its receipts go for meeting expenses of the college and the International Institute. At this moment, therefore, no definite information is available as to how the Foundation will meet its 25 percent share of project costs as prescribed in the grant agreement.

Conclusion: The existing accounting staff, records, controls and procedures are not, in our opinion, adequate to insure efficient management of AID funds. In addition, since satisfactory completion of grant objectives depend upon the Foundation's ability to provide funds from its own sources, the Mission should require a definite plan to accomplish this. In the long run, the Foundation's ability to continue the program after the project period will depend upon its financial viability and availability of outside resources.

B. Parivar Seva Sanstha (Family Service Association), New Delhi

The Parivar Seva Sanstha is a registered society engaged in providing family planning, birth control and health services through clinics. It presently runs six clinics plus other outreach programs in India for providing these services at a nominal charge. The subgrant proposal is not in support of society's clinical program, but is a new project.

Society accounting records and documents consist of: (a) a head office cash book and ledger; (b) cash books and ledgers for each clinic; (c) monthly statements of cash and bank receipts and payments for each clinic supported by suppliers bills, vouchers and receipt books; and (d) stock registers at each clinic. The monthly statements received from each clinic are reportedly verified and incorporated in the account books of individual clinics kept at the Society's head office. The account books are maintained by the staff of a chartered accounting firm, and at the end of each month a bank reconciliation and trial balance are prepared.

We could not examine the accounting records for the financial year ended December 31, 1982 because they were stated to be at the office of the chartered accounting firm. Our review of the records for January and February 1983 disclosed that the Society's books, records and procedures were generally adequate. We did, however, note the following exceptions:

- Head office vouchers were neither numbered nor authorized. The bank account is presently operated by any one of the three individually authorized signatories. Good accounting practices, as well as procedures prescribed by the GOI, require bank accounts to be under the control of dual signatories.

- There is no procedure in place to reconcile stock records with financial records. The stock register examined by us at one clinic appeared adequate except that issues were not referenced to either a patient's entry form, the issue register or issue slips. The value of non-expendable property was not recorded in all cases. Without this information, reconciliation to the financial records cannot be made. In addition, suppliers' bills were not referenced to the stock register for easy identification. Moreover, we were not shown the physical count statement as of December 31, 1982, if any, as it was reportedly untraceable and not yet finalized.

- The subgrantee has no established formal procurement procedures, and bids are presently not being requested. Also, no order register has been kept.

- The Society does not have internal auditors. We were told, however, that the chartered accounting firm provides both accounting and internal audit services.

The Society plans to meet its 25 percent contribution toward total project costs from the income of its Karol Bagh clinic. This clinic has a reported average estimated income of Rs. 50,000 per month. Since the accounts books for the year 1982 were not available, we could not verify this estimate. However, we did review the consolidated income and expenditure statement for the year ended December 31, 1981. We found that the collection of medical and operational fees for the year totaled only Rs. 665,071. On an average, this amounts to a monthly gross income (before expenses) of Rs. 55,423 for all six clinics. Therefore, without the 1982 financial statements, it is not clear to us as to how the society can estimate a monthly income of Rs. 50,000 for the project from just one clinic. Moreover, in 1981, total income from all sources exceeded total expenses by only Rs. 296,000. Therefore, at this time we question how the Society can now plan to make an annual project contribution of Rs. 600,000 (Rs. 50,000 x 12).

The proposal shows the total cost of the project to be Rs. 7,824,400 Of this amount, the Society is expected to contribute Rs. 2,026,200 which is slightly more than 25 percent of the total. However, the Rs. 2,026,200 includes Rs. 866,600 in depreciation on grant financed capital equipment. We do not believe depreciation on AID financed equipment can be considered part of the Society's contribution.

If we exclude the Rs. 866,600 from the original total estimate of Rs. 7,824,400, the new total cost estimate becomes Rs. 6,957,800. The Society is expected to finance 25 percent of this new estimate, or Rs. 1,739,450. At the moment, however, the Society's pledged share, exclusive of depreciation, is only Rs. 1,159,600 (Rs. 2,026,200 minus Rs. 866,600).

Conclusion: The Society's accounting system and financial procedures are generally satisfactory. With a few relatively minor improvements, the system will be adequate to properly account for U.S. Government funds. The size of the proposed project may warrant additional administrative staff at the headquarters office or project locations. This is something we believe should be explored by the mission since no provision for additional staff has been included in the budget.

The mission should obtain more information from the Society on exactly how it plans to meet the required 25 percent contribution to the project. The information presented by the Society thus far does not indicate that the contribution requirement can be met.

LIST OF REPORT RECIPIENTS

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Audit Liaison Officer	1
Bureau For Science and Technology	
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Office of General Counsel (GC)	1
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Office of Inspector General:	
Inspector General (IG)	1
Communications and Records Office (IG/EMS/C&R)	12
Policy, Plans and Programs (IG/PPP)	1
Regional Inspector General For Audit:	
RIG/A/W	1
RIG/A/Nairobi	1
RIG/A/Manila	1
RIG/A/Cairo	1
RIG/A/Latin America	1
RIG/A/Abidjan	1
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