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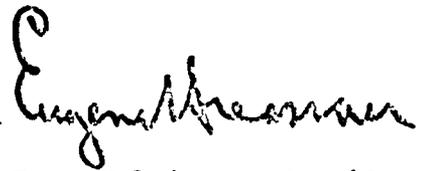
MEMORANDUM REPORT ON
Pre-Award Survey Of The Center For
African Family Studies

Audit Report No. 3-615-85-17

August 27, 1985

DATE: August 27, 1985

FROM: Eugene L. Treasrau, A/RIG/A/Nairobi



SUBJECT: Pre-Award Survey Of The Center For African Family Studies, Audit Report No. 3-615-85-17

TO: Ms. Laura McGhee, Regional Contracting Officer, Regional Economic Service Office/East & South Africa, Nairobi, Kenya

In response to your request, we made a pre-award survey of the Center for African Family Studies (CAFS) located in Nairobi, Kenya. CAFS is under consideration for a \$2.3 million AID grant to administer training courses aimed at improving family planning delivery systems. The grant is proposed to be implemented over a three-year period with a project assistance completion date of December 31, 1988. The purpose of our review was to examine CAFS's accounting system and financial and management capabilities.

Background

CAFS is an institution established by the Africa Regional Council of the International Planned Parenthood Federation (IPPF). It is based in Nairobi, Kenya, providing short but intensive training courses in population, family planning and family life education aimed at integrating these activities into socio-economic development programs in sub-Saharan Africa. Participants in courses and workshops are usually middle and senior-level personnel from various social and educational agencies.

In January 1983, CAFS began operating as an autonomous non-profit agency independent of its previous parent organization, the International Planned Parenthood Federation. This independence put the responsibility on CAFS for raising its own operating funds.

Survey Results

Accounting System And Records

The present accounting system was adopted from the previous parent organization IPPF. It is a basic manual system consisting of journals detailing transactions which are summarized monthly and posted to the general ledger. A review of a previous AID project showed that expenditures were segregated by project and donor, and that an appropriate

accounting could be made. CAFS also adopted the formal financial policies of IPPF. The records are audited annually as of December 31st by Price Waterhouse Associates in Nairobi, Kenya. The auditors expressed an unqualified opinion during the last examination as of December 31, 1984.

Currently, CAFS controller is solely responsible for the financial operations. We believe that disruptions could occur in the accounting function in the event of the controller's absence. The controller agrees that the volume of accounting work could easily double from the award of a \$2.3 million grant. The sole person management of accounting activities prevents the segregation of certain duties which are conducive to proper internal control. CAFS management was aware of the potential problems which could result from an increasing volume of accounting work. The director had previously recognized the necessity of hiring another individual to assist the controller if the proposed project is approved. We agree with the director's decision and believe it to be necessary for the adequate financial administration of the proposed grant.

The reporting system for accumulating staff instructor time on the various projects is based on a schedule which is director approved. While this system can be effective, we recommend that a time reporting system be established which also requires the instructors to indicate that they had actually worked on AID projects. This can easily be accomplished by having the instructor sign a timesheet indicating the amount of time for each course taught. The timesheets would then be approved by the supervisor or director.

Financial Capability

Audited financial statements show that CAFS operating results decreased drastically from a net surplus of \$127,299 for the fiscal period ending December 31, 1983 to a net deficit of (\$26,274) for the period ending December 31, 1984. The decrease was caused by projects being implemented in 1984 which were not underway in 1983 due to a lack of staff.

The working capital position is weak because all available cash is restricted for other donor projects. The cash balance at the end of fiscal year 1983, \$127,299, showed no cash restricted. At the end of fiscal year 1984 all available cash, \$122,612, was restricted for other donor projects. This is because in 1983 the organization was primarily funded by IPPF. In 1983 CAFS began operations as an autonomous agency. Therefore, in 1984, CAFS was funded by other donors for which cash had to be restricted for specific donor purposes. Restricted cash cannot be considered as working capital and

current ratios^{1/} for CAFS at the end of fiscal years 1983 and 1984 were 2.4 to 1 and .6 to 1 respectively. The proposal recognized the cash flow problem of the organization by requesting an advance equivalent to two months operating funds for the proposed AID project. Since unrestricted funds are commingled with restricted funds in the same account, we feel the best control over AID funds will be achieved by the establishment of a separate account solely for AID projects. A bank inquiry and a review of the bank statements showed that CAFS had written no checks which weren't covered by sufficient funds. Credit ratings, as we know them, are not used in Kenya.

Management Capability

The present management team is experienced in the operations in which CAFS is involved. Each individual has a solid background of education and experience that is commensurate with their specific administrative duties. Key members of the management team, which include the Director, Deputy Director, Finance Officer and Senior Program Officer have been with the organization since prior to 1983 when CAFS began operating independently of the International Planned Parenthood Federation..

An important objective of CAFS since becoming an independent non-profit organization is to identify potential fund-raising sources and establish a plan or policy for this activity. Our review of the minutes from the meetings held by the Board of Directors indicate management is addressing the issue and that a fund-raising committee has been established.

According to the proposal, CAFS is to begin to establish tuition or fees for its courses and attract participants who, through their host organization or donors, can pay for the courses. This could be important over the three year life of the proposed project. The objective is to have about 50 of the anticipated 400 participants in the proposed AID project courses pay tuition and per diem. This will provide CAFS with an additional source of income. We found that management has started, though at a low level, the assessment of tuition fees for another donor-funded course currently being taught at CAFS.

^{1/} The current ratio is an analytical index showing the ratio of current assets to current liabilities.

Summary

There was nothing significant which came to our attention to indicate that the project proposal by CAFS should not be approved.

However, there are certain considerations which we recommend the contracting officer implement or monitor if the project proposal is accepted. They are:

- A. The hiring of an additional accountant or bookkeeper as agreed to by the director after the approval of the project.
- B. The establishment of an instructor timekeeping system which is approved (signed) by both the instructor and the director.
- C. The establishment of a separate cash account to achieve the best control over AID project funds. A separate account will prevent AID funds from being commingled with other donor funds.

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