

*PI-111g-642*

*111-58492*

AUDIT OF THE FAMILY PLANNING  
SELF-RELIANCE PROJECT MANAGED BY  
THE COSTA RICAN DEMOGRAPHIC ASSOCIATION AS  
PROFAMILIA-ASPECOSTA, S. A.  
USAID/COSTA RICA PROJECT NO. 515-0168

Audit Report No. 1-515-89-03-N  
December 30, 1988

AGENCY FOR INTERNATIONAL DEVELOPMENT

U. S. MAILING ADDRESS  
RIG 7  
APO MIAMI 34622

OFFICE OF THE REGIONAL INSPECTOR GENERAL  
AMERICAN EMBASSY  
TEGUCIGALPA HONDURAS

TELEPHONES  
32-9987  
also 32-3122 EXT. 2701-2703

December 30, 1988

MEMORANDUM

TO : DUSAID/Costa Rica, Carl R. Leonard  
FROM : RIG/A/T, *George A. Rothwell*  
George N. Gothard, Jr.  
SUBJECT: Audit Report No. I-515-89-03-N, "Audit of the Family Planning Self-Reliance Project Managed by the Costa Rican Demographic Association and Profamilia-Asdecosta, S. A. in Costa Rica"

This report presents the results of a non-Federal financial and compliance audit requested by your Mission of the Family Planning Self-Reliance Project managed by the Costa Rican Demographic Association (ABC) and Profamilia-Asdecosta, S. A. (Profamilia), USAID Costa Rica Project No. 515-0168. The certified public accounting firm of Peat Marwick prepared the report, which is dated November 17, 1988.

The purpose of this audit was to report on (1) the fairness of the fund accountability statement of the project for the period August 1, 1983 to December 31, 1987; (2) the system of internal control, including the procurement system; (3) compliance by ABC and Profamilia with applicable laws, regulations, and agreement terms; and (4) the reasonableness of the provisional overhead rate.

In the opinion of Peat Marwick, the fund accountability statement presents fairly the accumulated project funds received and disbursed as of December 31, 1987, except for \$34,707 in questionable costs. Peat Marwick's study and evaluation of internal accounting control and procurement practices revealed weaknesses which they believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement of the project may occur and not be detected within a timely period. The weaknesses observed were (1) lack of bid quotations for some procurements, (2) incompatible functions of an employee authorized to sign checks, and (3) USAID Costa Rica funds were commingled with other funds. In the opinion of Peat Marwick, ABC and Profamilia complied with applicable laws, regulations, and agreement terms tested, except that (1) a separate bank account was not maintained for USAID Costa Rica funds, (2) quarterly joint reviews were not performed, (3) annual evaluations of

the commercial retail sales distribution program were not performed, (4) a required market survey study was not prepared on time, and (5) equipment funded by USAID/Costa Rica was not identified. Nothing came to their attention to indicate non-compliance with items not tested. Peat Marwick used the simplified allocation method to compute the following overhead rates: 50% for 1984; 8% for 1985; 16% for 1986; and 10% for 1987. However, the calculations excluded direct costs related to the cost accounting system and commercialization.

The Peat Marwick report contains two recommendations to improve internal controls and five recommendations on compliance. We believe that the recommendations are significant. As a result, the following recommendation will be included in the Office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID-Costa Rica:

- a) assure that the recommendations on internal control and compliance contained in the Peat Marwick report are implemented prior to entering into any new agreements with the Costa Rican Demographic Association (ABC) (any of the recommendations applicable to the continuing project with Profamilia-Asdecosta should be implemented immediately); and
- b) negotiate a settlement concerning the disposition of the \$54,707 in costs questioned by the Peat Marwick report.

Please advise this office within 30 days of actions planned or taken to implement this recommendation.

AUDIT OF THE  
FAMILY PLANNING SELF-RELIANCE PROJECT,  
MANAGED BY COSTA RICAN DEMOGRAPHIC  
ASSOCIATION AND PROFAMILIA-ASDECOSTA,  
S. A.  
USAID/COSTA RICA PROJECT No. 515-0168

AUDIT OF THE  
FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION  
AND PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No.515-0168

TABLE OF CONTENTS

	<u>Page No.</u>
Transmittal Letter and Summary	
Background	1
Audit objectives and scope	2
Results of audit	3
Management comments	5
Fund Accountability Statement	
Auditors' opinion	6
Fund accountability statement	8
Notes to fund accountability statement	9
Report on Internal Accounting Control	
Auditors' opinion	14
Findings	16
Report on Compliance with Applicable Laws, Regulations and Agreement Terms	
Auditors' opinion	18
Findings	19
Report on Overhead Rate	
Auditors' opinion	24
Computation of overhead rate	Exhibit I
Determination of total direct costs allowable	Exhibit II
List of Report Recommendations	Appendix I
Management Comments	Appendix II

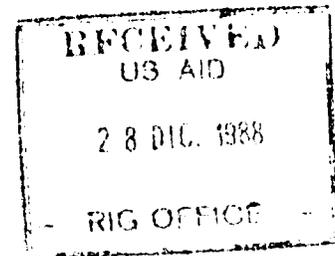
# KPMG Peat Marwick

Certified Public Accountants

Peat, Marwick, Mitchell & Co.

Apartado 10208  
San Jose, Costa Rica 1000

Telephone 23-0222  
Telex 2818 VERIT CR  
Telecopier (506) 21-5222



November 15, 1988

Mr. Coinage N. Gothard, Jr.  
Regional Inspector General for Audit  
U. S. Agency for International Development  
Tegucigalpa, Honduras

Dear Mr. Gothard:

This report presents the results of the audit of the Family Planning Self-Reliance Project, USAID/Costa Rica Project No.515-0168, managed by the Costa Rican Demographic Association (Asociacion Demografica Costarricense, ADC) and Profamilia-Asdecosta, S. A., from August 1, 1983 to December 31, 1987.

## BACKGROUND

In July 1983, USAID/Costa Rica signed a five-year cooperative Agreement for a Family Planning Self-Reliance Project, USAID/Costa Rica Project No.515-0168 with ADC, a not-for-profit organization created under Costa Rican law in March 1966.

The purposes of the Project were to promote socioeconomic development and satisfy the basic needs of the Costa Rican poor by increasing access to family planning services and information. Also, the major objectives of the Project were to revitalize the public sector family planning program, expand service delivery capacity of the private and voluntary sector and to enhance the financial self-reliance of all family planning activities.

The total budgeted amount for the Project was \$5,500,000, with USAID/Costa Rica providing \$2,500,000 over a five-year period and ADC and other donors providing \$3,000,000 over the same period. This report refers to Project operations funded by USAID/Costa Rica only.

The Project included a commercial retail sales plan to be implemented through an affiliate of ADC, Profamilia-Asdecosta, S. A. (Asdecosta), a corporation organized under the laws of Costa Rica in May, 1981 with which a subcontract was signed.

Mr. Coinage N. Gothard, Jr.

- 2 -

November 15, 1988

---

AUDIT OBJECTIVES AND SCOPE

This is a financial and compliance audit of the Family Planning Self-Reliance Project, USAID/Costa Rica Project No.515-0168, implemented by ADC and Asdecosta, for the period from August 1, 1983 to December 31, 1987. The audit objectives were to determine whether:

1. The fund accountability statement as of December 31, 1987 presents fairly the accumulated financial condition of the Project through that date.
2. The internal accounting controls of ADC and Asdecosta are adequate to manage the Project as agreed with USAID/Costa Rica. This evaluation included the procurement system, handling of inventories and control of fixed assets.
3. ADC and Asdecosta have complied with applicable laws, regulations and Agreement terms.
4. The overhead rate used in the Project is reasonable in the circumstances. If not, a final overhead rate should be recommended.

The scope of our work consisted of the following:

1. Testing, on a selective basis, documentation supporting disbursements to determine whether costs incurred in carrying out the purposes of the Project were reasonable, allocable and allowable in accordance with the Agreement, the standard provisions and negotiated advance understanding on a particular cost or item, as applicable.
2. Identifying any cost not considered appropriate for reimbursement under the Agreement and the criteria of allowability and reasonability established in the OMB Circulars A-110 and A-112.
3. Studying and evaluating the internal accounting controls of ADC and Asdecosta related to the Project.
4. Reviewing ADC's method of allocating overhead costs in the Project's proposal to ensure that costs allocated are equitable and related to benefits received.

Mr. Coinage N. Gothard, Jr.

- 3 -

November 15, 1988

5. Reviewing a) the overhead pool of expenses and allowability for Project purposes; b) expense items not allowed by the Agreement or the Federal Procurement Regulations (FAR); c) salaries and related costs of ADC's executives who devote the majority of their time to fund raising and public information activities, if any (then costs should be reclassified from indirect to unallowable direct costs); d) the cost of employee excessive idle time, excessive staffing and excessive facilities, if any (see the CFR or FAR for further guidance); and e) costs directly applicable to the Agreement that are not reimbursable under it (For example, excess per diem payments and costs over airfare costs).
6. Calculating the overhead rate after all audit adjustments have been made to the pool and the base.
7. Reviewing compliance with applicable laws, regulations and Agreement and Subcontract terms to which ADC and Asdecosta are subject, in connection to the Project.

Except for the fact that we performed our tests based on photocopies of documents supporting amounts disbursed (originals could not be provided to us because ADC's responsibilities included their submission to USAID/Costa Rica for reimbursement), our work was performed in accordance with generally accepted auditing standards and the U. S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision) and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

#### RESULTS OF AUDIT

##### 1. Fund Accountability Statement

In our opinion, subject to the effects of the adjustments, if any, of any possible discrepancies between original supporting documentation and the photocopies examined by us (as described in the preceding paragraph) and except for questionable costs in the amounts of \$2,420,786 (as described in Note 3 to fund accountability statements), the fund accountability statement examined by us presents fairly the accumulated financial condition as of December 31, 1987 of the Family Planning Self-Reliance Project, managed by ADC and Asdecosta, on the basis of accounting explained in Note 1 b) to that statement.

Mr. Coinage N. Gothard, Jr.

- 4 -

November 15, 1988

## 2. Internal Accounting Control

Our study and evaluation disclosed several conditions that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement taken as a whole may occur and not be detected within a timely period. The principal findings related with internal accounting control were as follows:

1. Lack of bid quotations for some purchases.
2. The Internal Auditor had incompatible functions.

Also, based on the aforementioned study and evaluation, and except for the effect of the principal findings referred to in the previous paragraph, we believe that control over the procurement system, control over USAID/Costa Rica funded equipment and warehouse controls over materials and supplies are adequate to provide management with reasonable, but not absolute, assurance that related assets are safeguarded against loss from unauthorized use or disposition and that related transactions are executed in accordance with management's authorization.

## 3. Compliance with Applicable Laws, Regulations and Agreement Terms

Our audit tests were expanded and oriented towards verification of compliance with the agreement between ADC and USAID/Costa Rica and the subcontract between ADC and Asdecosta, in connection with management responsibilities for which noncompliance therewith could have a material effect on the examined fund accountability statement of the Project.

In our opinion, except for the matters included in pages 19 to 23, identified as findings 4 to 5, for transactions tested ADC and Asdecosta have complied with applicable laws, regulations and agreement terms, for which noncompliance therewith could have a significant effect on the Project's fund accountability statement. Nothing came to our attention that caused us to believe that untested items were not in compliance with applicable laws, regulations and agreement terms.

Mr. Coinage N. Gothard, Jr.

- 5 -

November 15, 1988

---

#### 4. Overhead Rate

We have reviewed the reasonableness of the Project's provisional overhead rate for the years ended December 31, 1984, 1985, 1986 and 1987. It was not considered representative to review the reasonableness of the provisional overhead rate for the period from August 1, 1983 to December 31, 1983, because of the reduced level of the Project's operations during that period.

Computed overhead rates which do not subsidize non-USAID/Costa Rica funding are: 30% of applicable allowable costs for 1984, 38% for 1985, 46% for 1986, and 40% for 1987. This excludes direct costs related to the Cost Accounting System and Commercialization. The methodology used was the "simplified allocation method" as defined in Section D-2 of Attachment A of OMB Circular A-122 (Cost Principles for Nonprofit Organizations), dated June 27, 1980. That methodology was used because the resulting overhead rate does not subsidize non-USAID/Costa Rica funds and the Project meets the general criteria established in Section D-1-a of Attachment A of the OMB Circular A-122 (See Exhibit I). Total direct costs allowable for the period from August 1, 1983 to December 31, 1987 were determined as shown in Exhibit II.

#### MANAGEMENT COMMENTS

This report was discussed on November 15, 1988 with ADC, Asdecosta and USAID/Costa Rica representatives whose comments and observations were taken in consideration and incorporated herein, as considered appropriate. Written comments are included in the attached Appendix II.

\*\*\*\*\*

This report is intended solely for the use of ADC, Asdecosta and the U. S. Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

*Peat, Marwick, Mitchell + Co.*

FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No.515-0168

REPORT ON FUND ACCOUNTABILITY STATEMENT

AUDITORS' OPINION

We have examined the fund accountability statement of the Family Planning Self-Reliance Project, USAID/Costa Rica Project No.515-0168, managed by the Costa Rican Demographic Association (Asociacion Demografica Costarricense, ADC) and Profamilia-Asdecosta, S. A. (Asdecosta) for the period from August 1, 1983 to December 31, 1987. Except as discussed in the following paragraph, our examination was performed in accordance with generally accepted auditing standards and the U. S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision) and, accordingly, included such test of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Original documentation supporting amounts disbursed for the Project was not provided to us; as a result, we performed our tests based on photocopies of such documentation.

As mentioned in Note 1-(b), the policy was to prepare the Project's fund accountability statement on the basis of cash receipts and disbursements; consequently, revenues were recognized when received rather than when earned and expenses were recognized when paid rather than when the obligations were incurred. Accordingly, the accompanying fund accountability statement is not intended to present the results of operations of the Project in conformity with generally accepted accounting principles.

In our opinion, subject to the effects of the adjustments, if any, of any possible discrepancies between original supporting documentation and the photocopies examined, as described in the second paragraph, and except for questionable costs amounting to ₡2,420,786, as detailed in Note 3, the fund accountability statement presents fairly the accumulated financial condition as of December 31, 1987 of the Family Planning Self-Reliance Project, USAID/Costa Rica Project No.515-0168, managed by ADC and Asdecosta, on the basis of accounting described in Note 1-(b).

This report is intended solely for the use of ADC, Asdecosta and the U. S. Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

*Peat Marwick Mitchell & Co.*

November 15, 1988

**FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No. 515-0168**

FUND ACCOUNTABILITY STATEMENT

For the period from August 1, 1983 to December 31, 1987

(Expressed in Costa Rican Colones - Note 1-d)

<u>CATEGORIES</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>EXCESS (DEFICIT) OF BUDGET OVER ACTUAL</u>	<u>QUESTION- ABLE COSTS (NOTE 3)</u>
Funding provided	¢ 96,899,200	¢93,181,141	¢ 3,718,059	-
Expenditures-				
Public Sector:				
Training	¢ 9,804,200	9,025,405	778,795	¢ 20,263
Communications	19,476,000	18,865,602	610,398	748,017
Logistics	12,340,200	12,222,778	117,422	292,924
Equipment	1,733,700	849,000	884,700	849,000
Policy analysis	1,069,400	883,127	186,273	21,573
	<u>44,423,500</u>	<u>41,845,912</u>	<u>2,577,588</u>	<u>1,931,777</u>
Self-Reliance				
Special Projects:				
Cost accounting system	400,000	400,000	-	-
Special projects (Patient Flow Analysis, Prevalence Survey, Adolescent Program-starting January 1986)	7,830,500	8,023,682	(193,182)	67,565
	<u>8,230,500</u>	<u>8,423,682</u>	<u>(193,182)</u>	<u>67,565</u>
Overhead	<u>5,473,700</u>	<u>4,986,958</u>	<u>486,742</u>	<u>199,934</u>
Commercialization	<u>38,771,500</u>	<u>38,755,890</u>	<u>15,610</u>	<u>221,510</u>
Total expenditures	<u>96,899,200</u>	<u>94,012,442</u>	<u>2,886,752</u>	¢ <u>2,420,786</u>
Balance of funding provided (Note 2)	¢ <u>          -</u>	¢ <u>(831,301)</u>	¢ <u>831,301</u>	

FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No. 515-0168

NOTES TO FUND ACCOUNTABILITY STATEMENT

For the period from August 1, 1983 to December 31, 1987

Note 1- Nature of Operations and Summary of Significant Accounting Policies

(a) Nature of Operations

The Family Planning Self-Reliance Project started on August 1, 1983 according to a five-year cooperative agreement between the U. S. Agency for International Development in Costa Rica (USAID/Costa Rica) and the Costa Rican Demographic Association (Asociacion Demografica Costarricense, ADC), a not-for-profit organization created under the laws of Costa Rica in March 1966. The purposes of the Project were to promote socioeconomic development and satisfy the basic needs of the Costa Rican poor by increasing access to family planning services and information.

The Project included a commercial retail sales plan to be implemented through Profamilia-Asdecosta, S. A. (Asdecosta), ADC's affiliated corporation organized under the laws of Costa Rica in May 1981, with which a subcontract was signed by ADC.

(b) Preparation of Fund Accountability Statement

The fund accountability statement summarizes cash receipts and expenditures (excluding overhead, which has been computed based on an agreed-upon provisional fixed rate) of the Project activities for the period from August 1, 1983 to December 31, 1987. It has been prepared on the cash basis, in which revenues are recognized when received rather than when earned and expenditures are recognized when paid rather than when the obligations are incurred.

(c) Funding Provided

Funding provided to the Project and included in the fund accountability statement was all received from USAID/Costa Rica. Expenditures are related to the disbursing of such funds to accomplish the objectives of the Project discussed above.

(d) Monetary Unit and Foreign Exchange Regulations

The accounting records of the Project are kept in colones (₡), the currency of the Republic of Costa Rica. At December 31, 1987, the official exchange rate between the Costa Rican colon and the dollar of the United States of America (\$) was ₡20.00 to \$1.00, which has no commercial uses.

The Central Bank of Costa Rica has adopted various measures and foreign currency exchange regulations on different dates which affect foreign currency transactions of the Project. A commercial exchange rate is used to settle all transactions in foreign currency, which at December 31, 1987 amounted to ₡69.75 to \$1.00.

The Central Bank of Costa Rica (and its agents) have the exclusive faculty of conversion of foreign currency to and from colones. Private conversion is prohibited, although holding of foreign currency, other than export proceeds, is specifically allowed. All foreign currency transactions are subject to prior approval by the Central Bank.

Note 2- Balance of Funding Provided

Excess of expenditures over funding provided by USAID/Costa Rica was covered by the Project mainly from funds donated by other institutions. Such excess will be collected from USAID/Costa Rica before or when the Project terminates.

Note 3 - Questionable Costs

According to USAID/Costa Rica's applicable regulations, costs charged to the Project must meet the following general criteria:

- a. Be reasonable for the performance of the Project. A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the same circumstances.
- b. Be allocable to the Project. A cost is allocable in accordance with the relative benefits received.
- c. Conform to any limitations or exclusion set forth in the Agreement in which the Project is based.
- d. Be adequately documented.

The following are costs incurred by the Project that were determined to be questionable because they did not conform, or there was no adequate evidence to determine if they did indeed conform, with one or more of the above mentioned criteria:

<u>Budgetary categories</u>	<u>Explanation</u>	<u>Questionable cost</u>
Training	1. No bid quotations were made. Not possible to determine if reasonable.	€ 20,000
	2. Difference between costs charged and available supporting documentation.	263
	Total training	<u>20,263</u>
Communications	3. According to a proforma invoice, the cost charged to the Project included sales tax (not allowable according to applicable regulations). The amount questioned is sales tax only.	4,620
	4. Invoice supporting purchase does not segregate price from sales tax; accordingly, it was assumed that it was included in the cost charged to the Project (not allowable according to applicable regulations). The amount questioned is assumed sales tax only.	149,468
	5. Same as 1 above.	415,451
	6. Purchase made directly by the Executive Director; no evidence that bid quotations were requested (not possible to determine if reasonable).	<u>69,412</u>
	Communications, carried forward	€ <u>638,951</u>

<u>Budgetary categories</u>	<u>Explanation</u>	<u>Questionable cost</u>
	Communications, brought forward	¢ 638,951
	7. Cost of a typewriter donated to Centro de Orientacion Familiar (COF). Questioned because clause 5 of agreement between ADC and COF indicated that the equipment needed on the Project would be supplied by COF.	72,500
	8. Same as 2 above.	36,566
	Total communications	<u>748,017</u>
Logistics	9. Same as 3 above.	64,763
	10. Same as 4 above.	102,458
	11. Cost of 1,000 copies of a booklet with subject matter related to an investigation on how to construct an indicator of family income ("Metodologia y Construccion de un Indicador del Ingreso Familiar"). Booklets were distributed to institutions not directly related with family planning.	41,450
	12. Purchase of computer equipment not allowable according to Procurement Standards, Handbook 13, which stipulates "No employee, officer, or agent shall participate in the selection, award or administration of a contract in which Federal funds are used". The equipment was acquired from Electronica del Istmo, S. A., whose President of the Board of Directors is also Treasurer of the Board of Directors of ADC.	
	Logistics, carried forward	¢ <u>53,297</u> <u>261,968</u>

<u>Budgetary categories</u>	<u>Explanation</u>	<u>Questionable cost</u>
	Logistics, brought forward	€ 261,968
	13. Same as 2 above.	30,956
	Total logistics	<u>292,924</u>
Equipment	14. Same as 12 above.	<u>849,000</u>
Policy Analysis	15. Same as 4 above.	20,573
	16. Same as 2 above.	1,000
	Total policy analysis	<u>21,573</u>
Special Projects	17. Same as 2 above.	48,000
	18. Same as 4 above.	19,565
	Total special projects	<u>67,565</u>
Total questionable direct costs subject to overhead (see 20 below)		<u>1,999,342</u>
Commercialization	19. Same as 4 above.	<u>221,510</u>
Total questionable direct costs		2,220,852
Overhead	20. Proportion of overhead considered questionable based on the above direct cost disallowance, excluding Commercialization (€1,999,342x10%).	<u>199,934</u>
Total questionable costs		<u>€ 2,420,786</u>

**FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No.515-0168**

**REPORT ON INTERNAL ACCOUNTING CONTROL**

**AUDITORS' OPINION**

We have examined the fund accountability statement of the Family Planning Self-Reliance Project, USAID/Costa Rica Project No.515-0168, managed by the Costa Rican Demographic Association (Asociacion Demografica Costarricense, ADC) and Profamilia-Asdecosta, S. A. (Asdecosta) for the period from August 1, 1983 to December 31, 1987 and have issued our report thereon dated November 15, 1988, in which we qualified our opinion. As part of our examination, we made a study and evaluation of ADC's and Asdecosta's systems of internal accounting control related to the Project to the extent we considered necessary to evaluate the systems as required by generally accepted auditing standards and the U. S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision). For the purpose of this report, we have classified the significant internal accounting controls in, and have evaluated, the following categories:

- . Bank reconciliations
- . Procurement system
- . Control over USAID/Costa Rica funded equipment
- . Control over use of vehicles, spare parts, fuel and lubricants
- . Warehouse controls over materials and supplies

The purpose of our study and evaluation was to determine the nature, timing and extent of our auditing procedures necessary for expressing an opinion on the Project's fund accountability statement. Our study and evaluation was more limited than would be necessary to express an opinion on the systems of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of ADC and Asdecosta are responsible for establishing and maintaining systems of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit an adequate and reasonable preparation of the fund accountability statement of the Project.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the systems. Accordingly, we do not express an opinion on the systems of internal accounting control of ADC and Asdecosta related to the Project taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed the conditions included in pages 16 to 17, identified as findings 1 to 2, that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement of the Project may occur and not be detected within a timely period.

These conditions were considered in determining the nature, timing and extent of the audit procedures to be applied in our examination of the fund accountability statement of the Project and this report does not affect our report dated November 15, 1988 on such financial statement.

This report is intended solely for the use of ADC, Asdecosta and the U. S. Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

*Peat Marwick Mitchell & Co.*

November 15, 1988

FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No.515 0168

REPORT ON INTERNAL ACCOUNTING CONTROL

FINDINGS

1. Lack of Bid Quotations for Some Purchases

Condition

Some purchases were made without at least three bid quotations, as required by established procedures (checks No.31639, 31745, 368536, 368539, 33223, 33421, 33610).

Criteria

According to established procedures, three quotations should always be obtained for purchases of goods and services that exceed ₡3,000.

Cause

In some cases, purchases were made outside Costa Rica directly by the Executive Director; in others, a clear cause could not be established.

Effect

There was no clear and documented evidence to determine if the purchases were made from the supplier that offered the best conditions.

Recommendation

USAID/Costa Rica should assure that ADC and Asdecosta obtain at least three bid quotations on all purchases of goods and services, as required by regulations.

FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No. 515-0168

REPORT ON INTERNAL ACCOUNTING CONTROL

FINDINGS

2. The Internal Auditor Had Incompatible Functions

Condition

The Internal Auditor was authorized by the Board of Directors to sign checks which was incompatible with his audit functions.

Criteria

The Internal Auditor should not be responsible for the duty of signing checks. Such task tends to negate his main function of review of cash disbursements.

Cause

The Internal Auditor had been authorized by the Board of Directors to sign checks without consideration of the possible consequences.

Effect

There was a possibility of undetected errors or irregularities.

Recommendation

The Board of Directors of ABC should change its policy of authorizing the Internal Auditor to sign checks since it is an incompatible function for the Internal Auditor to review a process in which he participated.

FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No.515-0168

REPORT ON COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS AND  
AGREEMENT TERMS

AUDITORS' OPINION

We have examined the fund accountability statement of the Family Planning Self-Reliance Project, USAID/Costa Rica Project No.515-0168, managed by the Costa Rican Demographic Association (Asociacion Demografica Costarricense, ADC) and Profamilia-Asdecosta, S. A. (Asdecosta) for the period from August 1, 1983 to December 31, 1987, and have issued our report thereon dated November 15, 1988, in which we qualified our opinion. Our examination was performed in accordance with generally accepted auditing standards and the U. S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision) and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our audit tests were expanded and oriented towards verification of compliance with the agreement between ADC and USAID/Costa Rica and the subcontract between ADC and Asdecosta in connection with management responsibilities for which noncompliance therewith could have a material effect on the examined fund accountability statement of the Project.

In our opinion, except for the matters included in pages 19 to 23, identified as findings 1 to 5, for transactions tested ADC and Asdecosta have complied with applicable laws, regulations and agreement terms, for which noncompliance therewith could have a significant effect on the Project's fund accountability statement. Nothing came to our attention that caused us to believe that untested items were not in compliance with the applicable laws, regulations and agreement terms.

This report is intended solely for the use of ADC, Asdecosta and the U. S. Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

*Paul M. Mitchell*

November 15, 1988

FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No. 515-0168

REPORT ON COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS AND  
AGREEMENT TERMS

FINDINGS

1. Market Survey Study Not Prepared On Time

Condition

The required Market Survey Study was not prepared on a timely basis to make appropriate use of the information presented therein.

Criteria

The Market Survey Study, as required by clause V, A of the agreement, should have been prepared timely to be used as the basis of detailed implementation plans for the Commercial Retail Sales program to be implemented by Asdecosta.

Cause

Persons contracted to perform the study did not prepare it on a timely basis.

Effect

It was not possible to make appropriate use of the Market Survey Study to form the basis of detailed implementation plans of the Commercial Retail Sales program.

Recommendation

USAID/Costa Rica should assure that ADC's management contract services for the preparation of required studies on a timely basis.

FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No.515-0168

REPORT ON COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS AND  
AGREEMENT TERMS

FINDINGS

2. USAID/Costa Rica Funded Equipment was Not Identified

Condition

ADC equipment was not tagged to be readily identified as USAID/Costa Rica funded.

Criteria

Items of equipment should be tagged in a manner that they can be readily identified as USAID/Costa Rica funded.

Cause

Items of equipment were tagged, but not in a manner that allowed ready identification as USAID/Costa Rica funded equipment.

Effect

Items of equipment could not be identified as USAID/Costa Rica funded.

Recommendation

ADC and Asdecosta should establish procedures to clearly identify USAID/Costa Rica funded equipment as being provided under the U. S. Foreign Assistance Program.

FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No. 515-0168

REPORT ON COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS AND  
AGREEMENT TERMS

FINDINGS

3. No Quarterly Joint Reviews Were Held

Condition

Only one joint review was performed between ADC, USAID/Costa Rica and representatives of Asdecosta.

Criteria

Joint reviews should have been performed at least on a quarterly basis, in accordance with Annex 1, III of the Agreement.

Cause

According to Asdecosta's management, they submitted to USAID/Costa Rica monthly reports which included evaluations of the Project and the required joint reviews were not considered necessary.

Effect

Evaluations were not made on a timely basis to review the achievement of project goals and the performance of ADC as the implementing institution.

Recommendation

USAID/Costa Rica should assure that joint reviews are undertaken quarterly by USAID/Costa Rica, ADC and representatives of Asdecosta, in accordance with the Agreement.

FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No. 515-0168

REPORT ON COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS AND  
AGREEMENT TERMS

FINDINGS

4. USAID/Costa Rica Funds Were Commingled with Other Funds

Condition

In ADC, funds received from USAID/Costa Rica were commingled with other funds. No separate bank account was maintained to make disbursements therefrom.

Criteria

USAID/Costa Rica funds shall be deposited in a separate bank account and disbursements for goods and services for the Project should be made from that account.

Cause

Funds received from USAID/Costa Rica were deposited in a separate bank account; however, afterwards, they were transferred to another bank account, where they were commingled with other funds.

Effect

There was no separate control over funds received from USAID/Costa Rica and, therefore, control was minimized.

Recommendation

USAID/Costa Rica should require ADC and Asdecosta to maintain separate bank accounts to manage USAID/Costa Rica funding. All transactions related with those funds should be made through those separate accounts.

FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No. 515-0168

REPORT ON COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS AND  
AGREEMENT TERMS

FINDINGS

5. Lack of Annual Evaluations In Asdecosta

Condition

No annual evaluations of the Commercial Retail Sales distribution program have been done in Asdecosta.

Criteria

According to clause IV of the agreement, annual evaluations should be made to determine the percentage of persons that received benefits of the Project and their condition before the program started.

Cause

This clause of the subcontract was not adhered to because, according to Asdecosta's management, they submitted monthly reports which included evaluations of the Commercial Retail Sales distribution program.

Effect

Benefits of the Commercial Retail Sales distribution program have not been evaluated, as required by the subcontract.

Recommendation

USAID/Costa Rica should make certain that ADC requires Asdecosta to comply with the requirement for annual evaluations of the Commercial Retail Sales distribution program, according to the Subcontract, to determine benefits received by users.

FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No.515-0168

REPORT ON OVERHEAD RATE

AUDITORS' OPINION

We have examined the fund accountability statement of the Family Planning Self-Reliance Project, USAID/Costa Rica Project No.515-0168, managed by the Costa Rican Demographic Association (Asociacion Demografica Costarricense, ADC) and Profamilia-Asdecosta, S. A. (Asdecosta) for the period from August 1, 1983 to December 31, 1987, and have issued our report thereon dated November 15, 1988, in which we qualified our opinion. Our examination was performed in accordance with generally accepted auditing standards and the U. S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 Revision) and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In connection with that examination and according to audit requirements, we reviewed the reasonableness of the Project's provisional overhead rate for the years ended December 31, 1984, 1985, 1986 and 1987. It was not considered representative to review the reasonableness of the provisional overhead rate for the period from August 1, 1983 to December 31, 1983, because of the reduced level of the Project's operations during that period. The purposes of our review was to recommend a final overhead rate, if considered appropriate, which does not subsidize non-USAID/Costa Rica funding and justify the recommended methodology.

The results of our work determined the following:

- Computed overhead rates which do not subsidize non-USAID/Costa Rica funds are: 30% of applicable allowable costs for 1984; 38% for 1985; 46% for 1986; and 40% for 1987. This excludes direct costs related to the Cost Accounting System and Commercialization. The methodology used was the "Simplified Allocation Method" as defined in Section D-2 of Attachment A of OMB Circular A-122 (Cost Principles for Nonprofit Organizations), dated June 27, 1986. That methodology was used because the resulting overhead rate does not subsidize non-USAID/Costa Rica funding and the Project meets the general criteria established in Section D-1-a of Attachment A of the OMB Circular A-122 (See Exhibit D).

- Total direct costs allowable for the period from August 1, 1983 to December 31, 1987 were determined as shown in Exhibit II.

This report is intended solely for the use of ADC, Asdecosta and the U. S. Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

*Peat, Marwick, Mitchell & Co.*

November 15, 1988

FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No. 515-0168

REPORT ON OVERHEAD RATE

COMPUTATION OF OVERHEAD RATE  
(000's of Costa Rican Colones)

	Years ended	December	31,		
	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>Total</u>
Indirect costs	¢ 6.711	8.793	11.819	11.903	39.226
Less indirect costs not allowable (depreciation)	-	-	204	205	409
Indirect costs, net	¢ <u>6.711</u>	<u>8.793</u>	<u>11.615</u>	<u>11.698</u>	<u>38.817</u>
Direct costs:					
. USAID/Costa Rica	¢ 6.373	11.465	15.851	14.393	48.082
. Other donors	16.358	11.709	9.861	15.406	53.334
	<u>22.731</u>	<u>23.174</u>	<u>25.712</u>	<u>29.799</u>	<u>101.416</u>
Less direct costs not allowable (depreciation)	-	-	614	613	1.227
Direct costs, net	¢ <u>22.731</u>	<u>23.174</u>	<u>25.098</u>	<u>29.186</u>	<u>100.189</u>
Computation of overhead rate according to the "Simplified Allocation Method" (indirect costs, net/direct costs, net)	<u>30%</u>	<u>38%</u>	<u>46%</u>	<u>40%</u>	<u>39%</u>

FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No.515-0168

REPORT ON OVERHEAD RATE

DETERMINATION OF TOTAL DIRECT COSTS ALLOWABLE  
(In Costa Rican Colones)

For period from August 1, 1983 to December 31, 1987

	<u>Public Sector</u>	<u>Special Projects</u>	<u>Total</u>
Direct costs reimbursed	¢ 41,845,912	8,023,682	49,869,594
Less questionable direct costs related to the period from August 1, 1983 to December 31, 1987 (see fund accountability statement)			
Direct costs allowable	¢ <u>39,914,135</u>	<u>7,956,117</u>	<u>47,870,252</u>

FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No. 515-0168

LIST OF REPORT RECOMMENDATIONS

Internal Accounting Control

1. USAID/Costa Rica should assure that ADC and Asdecosta obtain at least three bid quotations on all purchases of goods and services, as required by regulations.
2. The Board of Directors of ADC should change its policy of authorizing the Internal Auditor to sign checks since it is an incompatible function for the Internal Auditor to review a process in which he participated.

Compliance with Applicable Laws, Regulations and Agreement Terms

1. USAID/Costa Rica should assure that ADC's management contract services for the preparation of required studies on a timely basis.
2. ADC and Asdecosta should establish procedures to clearly identify USAID/Costa Rica funded equipment as being provided under the U.S. Foreign Assistance Program.
3. USAID/Costa Rica should assure that joint reviews are undertaken quarterly by USAID/Costa Rica, ADC and representatives of Asdecosta, in accordance with the Agreement.
4. USAID/Costa Rica should require ADC and Asdecosta to maintain separate bank accounts to manage USAID/Costa Rica funding. All transactions related with those funds should be made through those separate accounts.
5. USAID/Costa Rica should make certain that ADC requires Asdecosta to comply with the requirements for annual evaluations of the Commercial Retail Sales Distribution program, according to the Subcontract, to determine benefits received by users.

FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No. 515-0168

<u>Issue and Page</u>	<u>Management Comment</u>
<u>Questionable costs:</u>	
Point 7 in page 12	Equipment was stolen from COF. Accordingly, purchase of a typewriter was deemed necessary; it was approved by USAID/Costa Rica in accordance with Project provisions and through Implementation Letter No. 9.
Point 11 in page 12	Booklet is a valuable contribution by ADC in a not much explored area by local or international investigators. It provides a suitable guide for understanding and explaining behavior of fertility and its relation with using contraceptives and is a tool which area of application has a wide effect (not only on family planning but, also, on population matters). Booklet was distributed to institutions which have investigative capacity that could be related with fertility and is an example of the purposes of ADC to achieve a multidisciplinary approach when dealing with population matters.

FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No. 515-0168

<u>Issue and Page</u>	<u>Management Comment</u>
Point 12 in page 12 and point 14 in page 13	Purchases were made based on the brands of the highest quality and technology, services and maintainance available as well as the most favorable and competitive prices. Although those purchases are in line with the standards approved by the other main donor of ADC they are not in compliance with USAID/Costa Rica's related provisions for acquisition of equipment. However, compliance therewith could have had a negative effect, in order to obtain the best goods at the best prices (thanks to the contribution of the referred Treasurer). Agreement for those purchases was reached between Executive Director and the Board of Directors of ADC (in which Treasurer did not participate) and is properly documented.
Points 3 and 4 in page 11, points 9 and 10 in page 12 and points 15 and 18 in page 13	When purchases were made, there were clear instructions from Executive Director and Internal Auditor regarding segregation in the invoices of sale taxes. As a result, if sale taxes were charged to the Project it was done without the knowledge and approval of Executive Director and/or Internal Auditor. It should be stated that, in several cases, billed prices include sale taxes which does not allow the required segregation.

FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No.515-0168

Issue and Page

Management Comment

Point 2 in page 11,  
point 8 in page 12 and  
points 13, 16 and 17  
in page 13

ADC's accounting department summarized original documents and submitted them to USAID/Costa Rica for reimbursement. Accordingly, originals can be provided only by USAID/Costa Rica.

Internal accounting control:

Finding 1 in page 16

.Checks Nos.33421 and 33610 (payments to Edilex, S. A. for production of four educative micro-programs for television). Local journalism has been, frequently, reluctant to report on population and family planning matters. In this case, we took advantage of the initiative of two recognized journalists, who offered a high-quality service at a reasonable price (including airing the programs). If quotations would had been requested, the advantage of having two recognized journalists reporting on family planning issues would had been lost.

.Checks Nos.33223 and 31639 (payments for \$31,102 to Difusiones Interamericanas, S. A. for services of tape dubbing and repair of professional turntables).

FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No.515-0168

Issue and Page

Management Comment

In 1984, ADC performed a preselection of companies for providing services on maintenance of equipment and tapes; three companies participated. According to that preselection, different types of services were granted to each one; tape dubbing was contracted with Difusiones Interamericanas, S. A.

.Check No.31745 (payment to Litografía e Imprenta Lil, S. A. for 1,050 posters, for ₡11,247.25).

Bid quotations were requested to other two suppliers; however, two did not participate because of the reduced amount of work involved. That situation was documented.

.Checks Nos.368536 and 368539 (purchases made outside Costa Rica directly by Executive Director). One check corresponds to a purchase done in New York, through the Procurement Office of the other main donor of ADC (which uses similar procurement procedures as ADC). The other is related with a purchase done by an ADC friend on a trip to Miami; prices were approved by telephone based on information previously obtained.

FAMILY PLANNING SELF-RELIANCE PROJECT, MANAGED BY  
COSTA RICAN DEMOGRAPHIC ASSOCIATION AND  
PROFAMILIA-ASDECOSTA, S. A.  
USAID/COSTA RICA PROJECT No. 515-0168

Issue and Page

Management Comment

Finding 2 in page 17

ADC's Board of Directors has discussed the issue extensively and have decided to maintain authorization to the Internal Auditor to sign checks (when the Treasurer is absent). That decision is based on the fact that the Internal Auditor performs most of his duties on a preventive basis before payments occur. However, position title has been changed from Internal Auditor to Controller (still reporting to the Board of Directors).

Compliance with applicable laws, regulations and agreement terms:

Finding 2 in page 20

Identifying equipment according to donors resulted to be annoying, time consuming and expensive. Accordingly, ADC's policy is to identify donors in a subsidiary ledger for equipment.

Finding 4 in page 22

ADC assigned checking account No. 52440-5 with Banco Nacional de Costa Rica for reception of USAID/Costa Rica funding and approved disbursements are transferred thereafter to general checking account No. 24671-0, also with that bank; expense accounts are maintained segregated for each donor. This procedure prevents delays in ADC's operations, since USAID/Costa Rica funds approvals not always are sufficient to cover cash needs. It was approved by USAID/Costa Rica from the beginning of the Project.

APPENDIX IIIREPORT DISTRIBUTION

	<u>No. of Copies</u>
Director, USMB/Costa Rica	5
AA/LAC	2
LAC/CAE/GP	1
AA/M	2
GC	1
LAC/CONT	1
LAC/EP	1
LAC/EP	1
LAC/GC	1
LAC/PLA	1
AA/NA	2
HG	1
M/PM/ASP	3
XA/EP	1
PPC/GRIF	2
EG	1
MG/NA	1
EG/EPO	2
EG/PSA	1
EG/EC	1
EG/AM/CP	12
EG/I	1
EG/ET	1
Other EG/As	1