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PRE-AWARD SURVEY OF THE  
SUPPORT GRANT FOR THE PRIVATE  
SECTOR COUNCIL FOR EDUCATIONAL  
ASSISTANCE (COSPAE) IN PANAMA

Audit Report No. 1-525-88-02-N  
April 22, 1988

4348

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL

AMERICAN EMBASSY

TEGUCIGALPA - HONDURAS

TELEPHONES:

32-9987

also 32-3120 EXT. 2701-2703

U S MAILING ADDRESS:

RIG/T

APO MIAMI 34022

April 20, 1988

MEMORANDUM

TO : Director, Development Affairs Office, Allan Broehl, U.S. Embassy Panama.

FROM : RIG/A/T, *Coinage N. Gothard* Coinage N. Gothard, Jr.

SUBJECT: Audit Report No. 1-525-88-02-N, "Pre-Award Survey of the Support Grant for the Private Sector Council for Educational Assistance (COSPAE) in Panama"

This report presents the results of a non-Federal pre-award survey requested by your Mission of the Support Grant for the Private Sector Council for Educational Assistance (COSPAE). The certified public accounting firm of Price Waterhouse in Panama prepared the report, which is dated February 2, 1988.

The purpose of this pre-award survey was to determine if COSPAE: (1) has sufficient administrative ability and span of control to administer the project; (2) has presented a cost proposal which is current, complete, accurate, and reflects costs which are allowable and necessary; (3) is financially capable of performing the project; (4) has adequate internal accounting controls; and (5) is in compliance with agreement terms and applicable laws and regulations.

In the opinion of Price Waterhouse, COSPAE:

- has sufficient administrative ability and span of control to administer the project;
- has the financial capacity to manage the project;
- has an adequate internal control system, except for three observed weaknesses; and
- has complied with the agreement terms and applicable laws and regulations tested. For items not tested, nothing came to their attention to indicate that COSPAE was not in compliance.

Price Waterhouse disclaimed an opinion on the cost proposal due to a scope limitation which precluded application of adequate auditing procedures. Adequate auditing procedures could not be applied because

COSPAE did not prepare detailed computations supporting the proposed costs.

The Price Waterhouse report contains one recommendation concerning COSPAE's cost proposal and three recommendations to improve the system of internal controls. We believe that implementation of these recommendations will correct the deficiencies found. This report is advisory only, since it is our policy for pre-award surveys not to include recommendations in the Office of the Inspector General's audit recommendation follow-up system.

PRE-AWARD SURVEY OF THE SUPPORT  
GRANT FOR THE PRIVATE SECTOR  
COUNCIL FOR EDUCATIONAL ASSISTANCE  
USAID/PANAMA PROJECT NO. 525-0258

FEBRUARY 2, 1988

PRE-AWARD SURVEY OF THE  
SUPPORT GRANT FOR THE PRIVATE  
SECTOR COUNCIL FOR EDUCATIONAL ASSISTANCE  
USAID/PANAMA PROJECT NO. 525-0258

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## *Price Waterhouse*

February 2, 1988

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

Dear Mr. Gothard:

This report presents the results of our pre-award survey of the Support Grant for the Private Sector Council for Educational Assistance (Consejo del Sector Privado para la Asistencia Educativa, COSPAE), USAID/Panama Project No. 525-0258.

### BACKGROUND

The Private Sector Council for Educational Assistance is a voluntary, not-for-profit organization established on June 2, 1984 under a Cooperative Agreement between USAID/Panama and the Institute of International Education (IIE). It was created to strengthen the Panamanian private sector by providing for technical and supervisory personnel to receive long and short-term training in the United States in fields related to their work in Panama.

The Private Sector Council for Educational Assistance is formed by the following Panamanian organizations:

- Cámara de Comercio, Industrias y Agricultura de Panamá
- Cámara Americana de Comercio de Panamá (AMCHAM)
- Asociación Panameña de Ejecutivos de Empresa (APEDE)
- Fundación Benéfica Rotaria
- Cámara Panameña de la Construcción (CAPAC)
- Fundación Ricardo Galindo
- Sindicato de Industriales de Panamá (SIP).

The Private Sector Council for Educational Assistance has the following organizational structure:

a. Board of Directors -

highest authority of the entity. It is responsible for the safeguarding of The Private Sector Council for Educational Assistance resources and promotes the affiliation with other similar foreign entities.

b. The Executive Director -

Mrs. Nuri Quintero de Sosa is the highest executive officer of The Private Sector Council for Educational Assistance and is responsible for its administration. Mrs. Quintero de Sosa is also the liaison between The Private Sector Council for Educational Assistance and the international organizations.

c. The assistant to the Executive Director -

Mrs. Germaine C. de Rovi has the responsibility of assisting the Executive Director and is in charge of keeping all accounting records.

d. Other employees -

the Private Sector Council for Educational Assistance has two secretaries, a part time public relations person and a messenger.

The Private Sector Council for Educational Assistance also has five permanent committees:

a. Executive Committee -

has the responsibility of making urgent administrative decisions when the matters do not require the approval of the Board of Directors.

b. Technical Committee -

has the responsibility of evaluating and selecting scholarship candidates.

c. Fund Collection Committee -

has the responsibility of coordinating all the local and international fund collection activities of COSPAE.

d. Annual Dinner Committee -

has the responsibility of organizing the activities related to the Annual Dinner of COSPAE for the collection of funds.

e. Foreign Affairs Committee -

has the responsibility of obtaining scholarships, visits or technical assistance from international universities and organizations.

On September 30, 1987 COSPAE and the U.S. Agency for International Development in Panama (USAID/Panama) signed Grant Agreement No. 525-0258 for Educational Assistance.

The purpose of the grant is to strengthen COSPAE's administrative and technical capacity to develop and implement scholarships and training programs within the Panamanian private sector.

According to the agreement, the effective date of this grant was September 30, 1987, and the expiration date is on March 31, 1989.

SURVEY OBJECTIVES AND SCOPE

The specific objectives of our survey were to determine whether:

- a. COSPAE has sufficient administrative ability and span of control to administer the project, considering its current and forecasted project workload, staffing levels and past performance;
- b. the estimated direct and indirect proposed project costs are based on the most current, complete and accurate pricing data available, and reflect only those costs which are allowable and necessary to accomplish the work;
- c. COSPAE's accounting system contains sufficient capacity to accurately record accounting data under the agreement and that internal accounting controls are adequate;
- d. COSPAE is financially capable of performing the proposed work; and
- e. COSPAE is in compliance with agreement terms and applicable laws and regulations.

Our review was performed in accordance with generally accepted auditing standards as well as with the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision).

The scope of our work consisted of:

reviewing COSPAE's organizational structure, certain administrative systems and procedures and current and proposed staffing levels with respect to project activity;

reviewing the cost proposal for the agreement with emphasis on compliance with the guidelines provided by OMB Circular No. A-122;

reviewing the internal accounting and administrative control systems with emphasis on those controls which will be utilized in recording project activities;

reviewing COSPAE's financial capability for performing the proposed work; and

reviewing COSPAE's operations for compliance with agreement terms and applicable laws and regulations.

During our work we were alert to situations on transactions that could be indicative of fraud, abuse and illegal expenditures and acts.

#### RESULTS OF SURVEY

##### Management Capability

The present staff of COSPAE appears to have sufficient experience and technical ability to administer the project efficiently. The Executive Director also appears to have sufficient span of control to manage the project.

##### Proposed Cost

We were unable to apply adequate auditing procedures to the cost proposal submitted by COSPAE to USAID/Panama, as no detailed computations were prepared, and accordingly, the scope of our work was not sufficient to express and we do not express an opinion on the fairness of the proposed costs.

Financial Capability:

COSPAE appears to have the financial capability to manage the proposed work. However, since the principal source of funding comes from donations from the local private sector and donations from The Chamber of Commerce, Industry and Agriculture of Panama it could be affected by the present political and economic situation in Panama.

Internal Controls

COSPAE's internal control systems were adequate for USAID's/Panama's purposes, except for the following:

- Bank reconciliations do not show evidence of approval by a responsible official.
- There is inadequate custody of blank checks.
- There is no subsidiary records for receipts and disbursements.

Compliance with Agreement Terms  
and Applicable Laws and Regulations

In relation to items tested, COSPAE complied with Agreement terms and applicable laws and regulations.

With respect to items not reviewed or tested, nothing came to our attention to indicate that COSPAE had not complied with Agreement terms and applicable laws and regulations.

MANAGEMENT COMMENTS

The independent accounting firm KPMG-Peat Marwick, Mitchell & Co. is presently performing a restructuring of the whole accounting and administrative systems of COSPAE in order to cope with the expected increase in activities. In that connection, COSPAE is in the process of acquiring a Wang Computer that should be installed by the end of February 1988.

With respect to the finding on the proposed costs, COSPAE's management is presently working on the third revised cost proposal in order to submit in more detail and with proper support another budget to USAID/Panama.

With respect to the internal control findings, COSPAE has taken corrective measures with the hiring of Mr. Rogelio Forero, a C.P.A., in January 1988 for the position of controller. At present, the recommendations included in this report have already been implemented as follows:

1. Since January 1988, the bank reconciliations are reviewed and approved by the controller.
2. Unused pads of blank checks are kept in a locked cabinet. The checks to be used during the day are under the custody of the person in-charge in a locked desk.
3. In connection with the restructuring of the systems, COSPAE is designing new forms for daily cash receipts and disbursements and for better control of documents.

*Pine Waterhouse*

PRE-AWARD SURVEY OF THE  
SUPPORT GRANT FOR THE PRIVATE  
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USAID/PANAMA PROJECT NO. 525-0258

REPORT ON MANAGEMENT CAPABILITY

AUDITOR'S OPINION

We have performed a study and evaluation of the Private Sector Council for Educational Assistance's management capability for the administration of Cooperative Agreement No. 525-0258 with the U.S. Agency for International Development in Panama (USAID/Panama). Our study and evaluation included those areas we considered relevant to the criteria established by the statement of work for the pre-award survey of the above-mentioned agreement. Our work was performed in accordance with generally accepted auditing standards and the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision).

Based on our study and our understanding of the criteria included in the statement of work referred to in the paragraph above, we believe that COSPAE has the management capability and experience to provide sufficient administration and span of control with respect to Cooperative Agreement No. 525-0258.

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

*Paul Waterhouse*

November 18, 1987  
Panama, R. P.

PRE-AWARD SURVEY OF THE  
SUPPORT GRANT FOR THE PRIVATE  
SECTOR COUNCIL FOR EDUCATIONAL ASSISTANCE  
USAID/PANAMA - PROJECT NO. 525-0258

REPORT ON PROPOSED COST

AUDITOR'S OPINION

We have reviewed the cost proposal for the Support Grant for the Educational Assistance Project related to the Cooperative Agreement No. 525-0258 between COSPAE and the Agency for International Development in Panama (USAID/Panama). Our review was made in accordance with applicable guidelines included in OMB Circular No. A-122 (Principles for Determining Costs Applicable to Grants, Contracts and Other Agreements with Educational Institutions), AID Handbook 13 (Page 4D - Mandatory Standard Provisions for Non-U.S. Nongovernmental Grantees) and the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision).

The purpose of our review was to determine compliance of the above-mentioned cost proposal with the following general guidelines:

1. Direct and indirect costs are based on the most current and complete pricing data available.
2. All included costs are allowable, reasonable and necessary.
3. The overhead rate, if any, is reasonable and in agreement with the contract terms.
4. Employee salary and wage plans and proposed escalation factors are reasonable.
5. Fringe benefit plans are reasonable.

The review of compliance of the cost proposal with the above-mentioned general guidelines was not practicable because the documentation available was prepared based on their experience with similar projects and did not include detailed computations supporting the proposed costs.

Because we were unable to apply adequate auditing procedures in full to the cost proposal for the Educational Assistance Project related to USAID/Panama Project No. 525-0258, the scope of our review was not sufficient to enable us to express, and we do not express, an opinion on the estimated direct and indirect proposed costs. Our opinion is based on the finding in this section.

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REPORT ON PROPOSED COST

This report is intended solely for the use of COSPAE and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of Public Record.

*Paie Waterhouse*

November 18, 1987  
Panama, R. P.

PRE-AWARD SURVEY OF THE SUPPORT GRANT FOR  
THE PRIVATE SECTOR COUNCIL FOR  
EDUCATIONAL ASSISTANCE  
USAID/PANAMA PROJECT NO. 525-0258

STATEMENT OF PROPOSED COSTS

	<u>Units</u>	<u>Cost per unit</u>	<u>USAID</u>	<u>COSPAE</u>
1. Technical Assistance				
a. Organizational development	2	\$ 7,500	\$ 15,000	\$ 5,000
b. Short-term training U.S.	4	10,000	40,000	10,000
c. Short-term training Panama (Design Program w/returnees)	3	10,000	30,000	10,000
d. Development follow-up program	10	6,500	65,000	12,000
e. Preparation five year plan	5	5,000	25,000	10,000
2. Staff Training Cost, Trips				
a. Training COSPAE staff, Voluntaries and Contractors	4	5,000	20,000	10,000
b. Observation Trips COSPAE staff, Board	4	10,000	40,000	20,000
3. Organizational Support				
a. Systems development	2	3,000	6,000	6,000
b. Organizational development		0	0	25,000
c. Follow-up Activities (Local)	5	2,000	10,000	10,000
4. Equipment, Training Material				
a. Automation of Accounting and Data Base System		25,000	25,000	12,000
b. Training Material Audiovisual, cassettes books, manual			44,000	10,000
5. Direct Training Cost				
a. U.S. short-term training (3 months)	40	3,750	150,000	150,000
b. Panama short-term training (1 month)	60	500	<u>30,000</u>	<u>30,000</u>
			<u>\$500,000</u>	<u>\$320,000</u>

PRE-AWARD SURVEY OF THE  
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REPORT ON PROPOSED COSTS

FINDING

There was no documentation supporting the proposed costs.

Condition:

The Private Sector Council for Educational Assistance officials were unable to provide supporting documentation for the proposed costs for our review as it was not prepared in detail.

Criteria:

The estimated direct and indirect proposed costs should be based on the most current, complete and accurate pricing data available.

Cause:

COSPAAE estimated the proposed costs based on its experience with prior similar projects with the Institute of International Education (IIE) and with the assistance of the Project Officer of USAID/Panama. However, no detailed computations were submitted by COSPAE to support the final cost proposal submitted to USAID/Panama.

Effect:

The Private Sector Council for Educational Assistance management was lacking detailed documentation of the costs for proper budget control.

Recommendation:

USAID/Panama should require COSPAE to support the proposed costs with detailed documentation and computations of estimates.

PRE-AWARD SURVEY OF THE  
SUPPORT GRANT FOR THE PRIVATE  
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REPORT ON FINANCIAL CAPABILITY

AUDITOR'S OPINION

We have performed a pre-award survey of the Private Sector Council for Educational Assistance's financial capability to manage Grant Agreement No. 525-0258 with the U.S. Agency for International Development in Panama (USAID/Panama). Our work was performed pursuant to the Statement of Work for the pre-award survey of the above-mentioned agreement and in accordance with the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision). Our work included, to the extent we considered necessary, a review of COSPAE's unaudited financial statements as of August 31, 1987; cash on hand; source of funds for the proposed counterpart contribution of COSPAE; and the accumulated average of the months corresponding to Phase I of the Project.

Based on our review as described above, we believe that COSPAE is financially capable of managing the above-mentioned agreement.

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

*Paie Waterhouse*

November 18, 1987  
Panama, R. P.

PRE-AWARD SURVEY OF THE  
SUPPORT GRANT FOR THE PRIVATE  
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USAID/PANAMA - PROJECT NO. 525-0258

MEMORANDUM ON FINANCIAL CAPABILITY

Our review of The Private Sector Council for Educational Assistance unaudited financial statements as of August 31, 1987 disclosed the following:

1. Net current assets amounted to approximately \$864,301.
2. Cash in banks of \$250,917 and time deposits, excluding those consigned to Petroterminal de Panamá (PTP), of \$597,262.
3. Fixed assets totaled approximately \$26,262.
4. The Private Sector Council for Educational Assistance net worth was approximately \$883,371.
5. For the eleven months ended August 31, 1987, revenues exceeded expenses by approximately \$17,743.

At August 31, 1987, The Private Sector for Educational Assistance did not have other projects which may require funding.

Based on the financial data provided by COSPAE it appears that the first phase of the Project, covering the period from October 1, 1987 to April 30, 1988, will provide a cash flow of approximately \$242,000. For the same period the Project's budget requires funds of approximately \$154,200 to cover expenditures.

COSPAE has three regular sources of funds, interest earned on time deposits, the Annual Dinner Event and an Annual Donation from Expocomer (Exposición Comercial). In addition, The Private Sector Council for Educational Assistance receives monthly donations from the Chamber of Commerce, Industries and Agriculture of Panama. The funds received from Expocomer are a donation of the Scholarship Fund of The Chamber of Commerce, Industry and Agriculture of Panamá.

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REPORT ON INTERNAL CONTROL

AUDITOR'S OPINION

We have performed a pre-award study and evaluation of the internal accounting and administrative control systems of The Private Sector Council for Educational Assistance (Consejo del Sector Privado para la Asistencia Educacional - COSPAE) in connection with its grant agreement No. 525-0258 with the U.S. Agency for International Development in Panama (USAID/Panama).

The purpose of our study and evaluation was to determine the adequacy of the control systems to record transactions under the agreement. Our study and evaluation was performed in accordance with generally accepted auditing standards and the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision) and pursuant to the criteria as set forth in the Statement of Work for the pre-award survey of the Agreement and was limited to an evaluation of cash disbursements, cash receipts, asset protection and reporting.

The management of COSPAE is responsible for establishing and maintaining the internal control systems used in administering the program applicable to the above-mentioned agreement. In fulfilling that responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of the internal control systems used in administering this program are to provide management with reasonable, but not absolute, assurance that, with respect to Agreement requirements, resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any system of internal accounting and administrative control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the systems 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.

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REPORT ON INTERNAL CONTROLS

AUDITOR'S OPINION

Based on our study and the criteria referred to in the first paragraph of this report we believe that COSPAE's internal control systems are adequate for USAID/Panama purposes, except for the conditions described in the accompanying findings Nos. 1 to 3 which we believe are not material findings.

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

*Paice Waterhouse*

November 18, 1987  
Panama

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REPORT ON INTERNAL CONTROLS

1. Bank reconciliations do not show evidence of approval by an official of The Private Sector Council for Educational Assistance.

Condition:

Most of the bank reconciliations reviewed were not approved by the Executive Director of COSPAE.

Criteria:

All bank reconciliations should be carefully reviewed and approved in writing by someone independent of its preparation.

Cause:

Bank reconciliations are not submitted to COSPAE management for review and approval.

Effect:

Unauthorized transactions may pass undetected due to lack of proper review and approval of the reconciliation.

Recommendation:

USAID/Panama should require COSPAE's monthly bank reconciliations to be approved in writing by the Executive Director or another responsible official independent of the preparation.

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REPORT ON INTERNAL CONTROLS

2. Inadequate custody of blank checks.

Condition:

Unused blank checks are kept unlocked in the desk of the assistant to the Executive Director.

Criteria:

The unused blank checks should be maintained at all times in a locked file cabinet.

Cause:

Blank checks are normally maintained and available at the desk of the assistant to the Executive Director.

Effect:

Blank checks are accessible to unauthorized persons.

Recommendation:

USAID/Panama should require COSPAE to safeguard checks in a locked file.

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REPORT ON INTERNAL CONTROLS

3. Subsidiary records are not maintained for cash receipts and disbursements.

Condition:

Cash receipts and disbursements are not recorded in subsidiary records and accordingly the detailed information is not available on a daily basis.

Criteria:

For proper control and follow-up of cash transactions, all cash receipts and disbursements should be recorded in a subsidiary record.

Cause:

All cash transactions are recorded directly through the computer every two weeks due to the reduced volume.

Effect:

The lack of a subsidiary record for cash transactions does not allow the verification of the monthly trial balance totals in order to detect errors or irregularities.

Recommendation:

USAID/Panama should require COSPAE to maintain a subsidiary record of cash receipts and disbursements for improvement of cash control and as a means of periodic verification.

PRE-AWARD SURVEY OF THE  
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REPORT OF COMPLIANCE WITH AGREEMENT TERMS  
AND APPLICABLE LAWS AND REGULATIONS

AUDITOR'S OPINION

We have performed a study and evaluation for compliance with agreement terms and applicable laws and regulations with respect to Cooperative Agreement No. 525-0258 between Private Sector Council for Educational Assistance and the U.S. Agency for International Development in Panama (USAID/Panama) signed on September 30, 1987. Our study and evaluation was performed in accordance with generally accepted auditing standards and the United States Comptroller General's "Standard for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision).

The management of The Private Sector Council for Educational Assistance is responsible for compliance with terms of the above-mentioned Agreement and applicable laws and regulations. For purposes of our study we reviewed and/or tested the following matters related to the Project:

1. Progress of the Project thru November 15, 1987, compared to activities programed for commencement and/or completion as of that date as included in the Project Plan.
2. Work plan of the agreement.

The result of our study indicates that, for the items reviewed and/or tested, The Private Sector Council for Educational Assistance complied with agreement terms and applicable laws and regulations. With respect to items not reviewed or tested, nothing came to our attention to indicate that COSPAE had not complied with Agreement terms and applicable laws and regulations.

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

*Paul Waterhouse*

November 18, 1987  
Panama

PRE-AWARD SURVEY OF THE  
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LIST OF REPORT RECOMMENDATIONS

PROPOSED COSTS

USAID/Panama should require COSPAE to support the proposed costs with detailed documentation and computations of estimates.

INTERNAL CONTROLS

1. USAID/Panama should require COSPAE's monthly bank reconciliations to be approved in writing by the Executive Director or another responsible official independent of the preparation.
2. USAID/Panama should require COSPAE to safeguard checks in a locked file.
3. USAID/Panama should require COSPAE to maintain a subsidiary record of cash receipts and disbursements for improvement of cash control and as a means of periodic verification.

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