

PD-ABB-168

66918

PRE-AWARD
SURVEY OF INTERNATIONAL
EXECUTIVE SERVICE CORPS, INDONESIA

Audit Report No. 2-497-90-05-N
December 12, 1989

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT
MANILA

UNITED STATES POSTAL ADDRESS
USAID/RIG/A/M
APO SAN FRANCISCO 96528

INTERNATIONAL POSTAL ADDRESS
c/o AMERICAN EMBASSY
MANILA, PHILIPPINES

DATE: December 12, 1989

MEMORANDUM

TO: Mr. David N. Merrill
Director, USAID/Indonesia

FROM: *William C. Montoney*
William C. Montoney
Regional Inspector General, RIG/A/M

SUBJECT: Pre-Award Survey of International
Executive Service Corps, Indonesia
Audit Report No. 2-497-90-05-N

The accounting firm of Drs. Hadi Sutanto, an affiliate of Price Waterhouse, performed a pre-award survey of the International Executive Service Corps (IESC). Five copies of the audit report are enclosed for your action.

IESC requested a 12 month grant of \$300,000 from USAID/Indonesia to help fund 30 subprojects under the Mission's Private Sector Management Development Project (497-0345). The grant is to provide support for an expanded program of technical and managerial assistance to small and medium size businesses.

The purpose of the pre-award survey was to determine whether: (1) the proposed direct and indirect costs were based on the most current, complete and accurate pricing data available and reflected only those costs which are allowable and necessary to accomplish the work required under the project; (2) IESC's accounting system can capture and segregate all accounting data under the project and has adequate internal accounting controls; and (3) IESC is financially capable of performing the proposed work. The scope of audit work included: (1) a review of the statement of proposed costs for the project; (2) a review of IESC's legal status and its projected administrative structure based on current and proposed levels of project activity and past performance in administering similar projects; and (3) a study of IESC's system of management and internal control for accounting, recordkeeping and financial management.

The survey showed that the grant proposal was not based on identified clients or projects in need of help. Also, IESC internal accounting control system needed to be improved to separately account for costs by individual projects. Finally, the survey found that IESC may not have the management structure to handle 30 new projects under the grant and that IESC is not financially independent.

IESC officials agreed with the report findings and recommendations.

Recommendation No. 1

We recommend that USAID/Indonesia enter into a direct cost reimbursement contract with the Corps to ensure adequate control over USAID funds.

Recommendation No. 2

We recommend that USAID/Indonesia, before providing funds to the Corps, require the Corps to:

- a. establish procedures to account for costs by individual projects,
- b. provide the Mission a written report on how the Corps will perform its administrative and financial reporting functions given the current staffing level, and
- c. provide the Mission with a letter from the Corps headquarters in Stamford, Connecticut guarantying that the Stamford office will continue to provide the necessary financial support to the Corps.

Please advise me within 30 days of any actions planned or taken to close these recommendations.

PRE-AWARD SURVEY

INTERNATIONAL EXECUTIVE SERVICE CORPS (IESC)

TABLE OF CONTENTS

	Page
	<hr/>
1.0 Transmittal Letter and Summary	1
2.0 Proposed Costings - Auditor's Opinion	4
- Findings	5
3.0 Internal Accounting Control System	
- Auditor's Opinion	7
- Findings	8
4.0 Management Capability	
- Auditor's Opinion	10
- Findings	11
5.0 Financial Capability	
- Auditor's Opinion	13
- Finding	14

Kantor Akuntan
Drs. Hadi Sutanto
Correspondents of
Price Waterhouse

Ficorinvest Building
Jl. H.R. Rasuna Said Kav. C-18
Kuningan, Jakarta Selatan 12950
INDONESIA

Telephone : 513516, 513518
Telex : 62300 KATEO IA
62631 PRCWTR IA
Telecopier : (021) 513897
P.O. Box 2473, 2169 JKT

Drs. Hadi Sutanto



November 16, 1989

890874

Mr William C. Montoney
Regional Inspector General/Manila
United States Agency for International Development
Ramon Magsaysay Center
1680 Roxas Boulevard
Manila, Philippines

Dear Mr Montoney,

This report presents the results of our pre-award survey of the International Executive Service Corps (IESC) for Private Sector Management Development (PSD), Project No. 497-0345.

A. Background

IESC is requesting a twelve month grant of \$300,000 to help fund 30 projects of two months or more at the level of \$10,000 each.

The grant is to provide support for an expanded program of technical and managerial assistance to small and medium size businesses as part of the Private Sector Management Development Project (497-0345).

Prior to approving any assistance to this non-profit volunteer organization A.I.D.'s policies and procedures require that the Mission satisfy itself as to the quality of the project cost proposal and of the implementing institution's administrative and financial capability.

B. Audit Objectives and Scope

The objectives of the audit were to determine whether :

- i. The estimated direct and indirect proposed 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 required under the project;
- ii. The prospective recipient's accounting system contains sufficient refinement to capture and segregate all accounting data under the project and that its internal accounting controls are adequate; and

Mr W.C. Montoney
November 16, 1989



iii. The prospective entity is financially capable of performing the proposed work.

The scope of our work as identified in the delivery order consisted of :

- i. A review of the statement of proposed costs for the project.
- ii. A review of the recipient's legal nature and its projected administrative structure based on the current and proposed levels of project activity and past performance in administering similar projects.
- iii. A study of the prospective recipient's system of management and internal control for accounting, record keeping and financial management purposes.

C. Results of Audit

Proposed Costings

As noted in finding no. 1 individual projects have not been identified and therefore the cost proposal was not prepared on a project by project basis. Although the USAID/Indonesia contribution was calculated at \$10,000 per project for 30 projects the proposed costings do not comply with A.I.D. guidelines.

Internal Accounting Control System

Subject to implementation of findings nos. 2 and 3 of this report we believe that IESC's financial management system and internal controls are adequate to properly capture, segregate and control A.I.D. funds.

Management Capability

As noted in finding no. 3 of this report we believe that IESC needs to strengthen its management capability if it is to provide the necessary management structure to properly administer this grant.

Mr W.C. Montoney
November 16, 1989



Financial Capability

IESC/Stamford has provided financial support to IESC/Indonesia in past years. We believe (refer finding no. 4) that USAID/Indonesia should ensure a statement of continuing support by IESC/Stamford, Connecticut is obtained for the duration of any USAID/Indonesia projects or grants.

We take this opportunity to thank USAID/Indonesia and IESC officials for the assistance extended to us during our pre-award survey.

Yours sincerely,

Stulante
—

Enclosure

Drs. Hadi Sutanto



**PRE-AWARD SURVEY OF
INTERNATIONAL EXECUTIVE SERVICE CORPS, INDONESIA
(IESC)**

REPORT ON PROPOSED COSTINGS

AUDITOR'S OPINION

We have reviewed the proposed costings of IESC for Private Sector Management Development Project No. 497-0345. Our review was made in accordance with the United States Comptroller's General "Government Auditing Standards" (1988 revision) but was limited in nature, extent and scope by the statement of work of the pre-award survey delivery order.

The purpose of our review was to determine whether the proposed costings were in compliance with the following general guidelines :

- i. Direct and indirect costs are to be based on the most current, complete and accurate data available.
- ii. All costs are allowable, allocatable, reasonable and necessary to accomplish the proposed project.

In our opinion the proposed costings do not comply with the above mentioned guidelines. Our opinion is based on finding no. 1 of this report.

Sutanto
—

November 16, 1989

**PRE-AWARD SURVEY OF
INTERNATIONAL EXECUTIVE SERVICE CORPS, INDONESIA
(IESC)**

FINDINGS

1. Proposal costings

Condition :

The proposal prepared by IESC for USAID/Indonesia funded PSD projects has not been prepared based on identified clients or projects in need of help; to improve operations, for business expansion or for the development of a new enterprise.

Criteria :

Proposal costings should be prepared based on identified client projects.

Cause :

The proposal has been developed on the funding required (\$10,000 per project) should 30 projects be carried out within a twelve month period. Due to the nature of IESC's operations they are not able to accurately forecast the projects to be carried out in the future. Projects supported by IESC are based on client proposals or identified needs on an ongoing basis.

Effect :

Control over and the efficient use of A.I.D. funds cannot be assured if a lump sum (\$300,000) is approved without specific performance criteria.

**PRE-AWARD SURVEY OF
INTERNATIONAL EXECUTIVE SERVICE CORPS, INDONESIA
(IESC)**

FINDINGS

1. Proposal costings (Continued)

Recommendation :

A direct cost reimbursement contract should be entered into by USAID/Indonesia and IESC and include a maximum level of funding per project and in total over a given time frame (1 year). The proposal and contract should disclose that funds be provided by USAID/Indonesia to reimburse only the direct costs incurred by IESC for each project.

Clients comment :

We agree with the recommendation. However, we think no maximum should be imposed per project as the reimbursement of only direct costs imposes a limit on the funding of each project. As an overall limit, we suggest the maximum of \$300,000 be included in the contract agreement.

Drs. Hadi Sutanto



**PRE-AWARD SURVEY OF
INTERNATIONAL EXECUTIVE SERVICE CORPS, INDONESIA
(IESC)**

REPORT ON INTERNAL ACCOUNTING CONTROL SYSTEM

AUDITOR'S OPINION

We have reviewed the internal accounting and administrative control system of IESC. Our review was based on the criteria set forth in the statement of work for the pre-award survey of IESC and was performed in accordance with the United States Comptroller General's "Government Auditing Standards" (1988 revision). Our review included an evaluation of the adequacy of accounting records, the physical and financial accountability of assets, the planning procedures, and financial reporting systems. Our review of the internal accounting and administrative control system did not include tests of compliance with such procedures and did not constitute an audit of any financial statements prepared by IESC. Our review was therefore more limited than would otherwise be the case for a normal audit of IESC.

Our review as described in the first paragraph would not disclose all relevant weaknesses in the system and accordingly we do not express an opinion on the system of internal accounting control of IESC as it would relate to the future activities funded by USAID/Indonesia. However our review disclosed the condition noted in the accompanying finding no. 2 which in our opinion results in a relatively high risk that errors or irregularities in amounts that would be material in relation to the value of projects funded may occur and not be detected within a timely period.

Hadi Sutanto

November 16, 1989

**PRE-AWARD SURVEY OF
INTERNATIONAL EXECUTIVE SERVICE CORPS, INDONESIA
(IESC)**

FINDINGS

2. Internal accounting control system

Condition :

There are no accounting or control procedures to ensure costs by individual projects are separately accounted for. Costs are therefore captured and recorded in summary accounts and require detailed analysis to ensure reporting by project activity is accurate.

Criteria :

General ledger accounts or subsidiary records should be established for all projects as these enable project costs to be separately identified, controlled and reported.

Cause :

IESC has not established an accounting system that is based on or reactive to project accounting.

Effect :

The lack of separate general ledger accounts or a project cost ledger does not allow costs of each project to be readily identified. The current accounting system will therefore not separately provide the necessary financial data for reporting to USAID/Indonesia within a properly controlled accounting environment.

**PRE-AWARD SURVEY OF
INTERNATIONAL EXECUTIVE SERVICE CORPS, INDONESIA
(IESC)**

FINDINGS

2. Internal accounting control system (Continued)

Recommendation :

IESC should establish general ledger accounts or subsidiary records such that all relevant costs for each project can be captured and reported to USAID/Indonesia in accordance with its contract requirements.

Client comment :

Subsidiary records will be maintained and will be kept to record all direct costs per project on a monthly basis.

Kantor Akuntan
Drs. Hadi Sutanto
Correspondents of
Price Waterhouse

Ficorinvest Building
Jl. H.R. Rasuna Said Kav. C-18
Kuningan, Jakarta Selatan 12950
INDONESIA

Telephone : 513516, 513518
Telex : 62300 KATEO IA
62631 PRCWTR IA
Telecopier : (021) 513897
P.O. Box 2473, 2169 JKT

Brs. Hadi Sutanto



**PRE-AWARD SURVEY OF
INTERNATIONAL EXECUTIVE SERVICE CORPS, INDONESIA
(IESC)**

REPORT ON MANAGEMENT CAPABILITY

AUDITOR'S OPINION

We have performed a review of IESC's capability for managing work under a proposed USAID/Indonesia agreement. Our review included those areas we considered relevant to the criteria established by the Regional Inspector General/Audit/Manila/A.I.D. as set forth in the statement of work for the pre-award survey of IESC. Our work was performed in accordance with the United States Comptroller General's "Government Auditing Standards" (1988 revision).

Subject to finding no. 3 of this report, we believe that IESC has the management capability to provide sufficient administration and span of control in relation to the proposed USAID/Indonesia agreement.

Sutanto
—

November 16, 1989

**PRE-AWARD SURVEY OF
INTERNATIONAL EXECUTIVE SERVICE CORPS, INDONESIA
(IESC)**

FINDINGS

3. Management capability

Condition :

The current management structure (3 only) may not be capable of handling as many as 30 new projects under this grant proposal.

Criteria :

The management structure of IESC should ensure that all major functions and departments i.e. administration, finance, project management are staffed in accordance with IESC's level of activities.

Cause :

IESC's office is staffed by only five (5) people which includes a Country Director, Marketing and Office Manager. Due to cost constraints this managerial structure, which has apparently been appropriate for its past activities, can only be strengthened if further projects are obtained and funding is forthcoming from third party funding agencies.

Effect :

As management's ability, to properly control and supervise a number of new projects is questionable compliance with A.I.D. reporting and recording regulations is unlikely.

Recommendation :

USAID/Indonesia should request IESC/Indonesia to provide a written report on how IESC/Indonesia intends to carry out its administrative and financial reporting functions given the current staffing level. This response we believe should necessarily include the employment of additional experienced

**PRE-AWARD SURVEY OF
INTERNATIONAL EXECUTIVE SERVICE CORPS, INDONESIA
(IESC)**

FINDINGS

3. Management capability

Recommendation : (Continued)

accounting and administrative staff members. As these staff members will be employed to directly administer the A.I.D. funded projects their costs should be reimbursable as direct costs under this agreement.

Client comment :

We agree a report will be prepared identifying the capabilities and duties of the staff members to be employed. This report will include an estimate of the costs of any new employee and how they are to be allocated to each project. The cost is to be allocated on a percentage of direct costs versus the total A.I.D. approved funding.

Kantor Akuntan
Drs. Hadi Sutanto
Correspondents of
Price Waterhouse

Ficorinvest Building
J. H.R. Rasuna Said Kav. C-18
Kuningan, Jakarta Selatan 12950
INDONESIA

Telephone : 513516, 513518
Telex : 62300 KATEO IA
62631 PRCWTR IA
Telecopier : (021) 513897
P.O. Box 2473, 2169 JKT

Drs. Hadi Sutanto



**PRE-AWARD SURVEY OF
INTERNATIONAL EXECUTIVE SERVICE CORPS, INDONESIA
(IESC)**

REPORT ON FINANCIAL CAPABILITY

AUDITOR'S OPINION

We have performed a review of IESC's capability for financing the work of a number of additional projects under a proposed USAID/Indonesia agreement. Our review made pursuant to the statement of work of the pre-award survey and was performed in accordance with the United States Comptroller General's "Government Auditing Standards" (1988 revision).

Subject to finding no. 4 of this report, we believe that IESC has the financial capability to provide sufficient financial support in relation to the proposed agreement.

A handwritten signature in black ink, appearing to read "Hadi Sutanto". The signature is written in a cursive style and is positioned above a horizontal line.

November 16, 1989

**PRE-AWARD SURVEY OF
INTERNATIONAL EXECUTIVE SERVICE CORPS, INDONESIA
(IESC)**

FINDINGS

4. Financial support

Condition :

As we have been informed that IESC/Stamford may limit the future funding of the Indonesian operations of IESC the financial capability of IESC/Indonesia to continue its operations at the current or expanded level may be in jeopardy.

Criteria :

The long term financial capability and therefore the ability of IESC/Indonesia to continue to operate needs to be confirmed or underwritten by IESC/Stamford.

Cause :

As IESC/Indonesia is not financially independent it relies on funding from IESC/Stamford to meet its ongoing financial commitments.

Effect :

Should IESC/Stamford reduce its funding of IESC/Indonesia then the financial capability of IESC/Indonesia to continue to fund its overheads and any shortfall in other project costs may be impaired.

Recommendation :

USAID/Indonesia should obtain a letter from IESC/Stamford, Connecticut indicating that it is prepared to continue to provide the necessary financial support to IESC/Indonesia in order that IESC/Indonesia is able to meet its financial obligations during the duration of any grants provided by USAID/Indonesia.

Client comment :

A letter of support has been requested from IESC headquarters.

APPENDIX 1

Report Distribution

	<u>No. of Copies</u>
Mission Director, USAID/Indonesia	5
Indonesian Desk (ANE/I)	1
Assistant Administrator, Bureau for Asia and Near East (AA/ANE)	1
Audit Liaison Office (ANE/DP)	1
Bureau for External Affairs (AA/XA)	1
Office of Press Relations (XA/PR)	1
Office of Legislative Affairs (LEG)	1
Office of the General Council (GC)	1
Office of Financial Management (PFM/FM/ASD)	2
US Ambassador to Indonesia	1
Office of the Inspector General	
IG	1
D/IG	1
IG/PPO	2
IG/LC	1
IG/RM	5
IG/I	1
IG/PSA	1
Regional Inspectors General	
RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/Nairobi	1
RIG/A/Singapore	1
RIG/A/Tegucigalpa	1
RIG/A/Washington	1
RIG/I/Singapore	1