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PRE-AWARD
SURVEY OF INDONESIAN FOUNDATION
FOR MANAGEMENT DEVELOPMENT

Audit Report No. 2-497-90-04-N
December 8, 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

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c/o AMERICAN EMBASSY
MANILA, PHILIPPINES

DATE: December 8, 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 Indonesian Foundation
for Management Development
Audit Report No. 2-497-90-04-N

The accounting firm of Drs. Hadi Sutanto, a member firm of Price Waterhouse, performed a pre-award survey of the Indonesian Foundation for Management Development (YPMI). Five copies of the audit report are enclosed for your action.

YPMI requested \$1.6 million from USAID/Indonesia for costs associated with curriculum development, long-term and short-term faculty and administrator training, library development, and student recruitment to implement a project for improving the management skills of Indonesian executives. The project will be implemented by IPMI, a non-profit educational institute controlled by YPMI. IPMI was established in 1984, two years after the foundation of YPMI, and over 180 students have received MBA's from the educational institute.

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) YPMI's accounting system can capture and segregate all accounting data under the project and has adequate internal accounting controls; and (3) YPMI 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 YPMI's legal status and its projected administrative

structure based on current and proposed levels of project activity and past performance in administering similar projects; (3) a study of YPMI's system of management and internal control for accounting, record keeping and financial management; and (4) an analysis of YPMI's financial capability for performing the proposed work.

The survey showed that the proposed costs for the first year of the project may have been overstated by almost \$146,000 because of the improper use of the inflation factor. Also, YPMI's internal accounting control system needed to be improved to prevent possible significant errors or irregularities. The auditors concluded that YPMI lacks the accounting personnel to properly account for USAID/Indonesia funds. Additional accounting staff need to be hired by YPMI or project funding should be made directly to IPMI which could handle the accounting and reporting requirements of the proposed grant. Finally, the survey found YPMI to have the necessary financial capabilities to administer the proposed project.

YPMI officials agreed with the report findings and recommendations.

Recommendation No. 1

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

- a. revise the proposal's budget to more accurately reflect current costs and
- b. establish procedures for the supervisory review and approval of accounting and procurement functions.

Recommendation No. 2

We recommend that USAID/Indonesia directly provide funds to the Foundation's educational institute to ensure that grant funds are controlled properly.

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

PRE-AWARD SURVEY

INDONESIAN FOUNDATION FOR MANAGEMENT DEVELOPMENT (YPMI)

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Drs. Hadi Sutanto

November 16, 1989



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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 project proposal which is to be administered by the Indonesian Foundation for Management Development (YPMI).

A. BACKGROUND

YPMI has requested \$1,603,256 from USAID/Indonesia or 75% of the total projected costs for: curriculum development, long-term and short-term faculty and administrator training, library development, student recruitment and the implementation of a project to improve the management skills of Indonesian executives. The project will be implemented by IPMI, a non-profit educational institute under the control of YPMI.

IPMI was established and admitted its first students in 1984 two years after the foundation of YPMI. Since the establishment of IPMI 181 students have received MBA's from the Institute.

Prior to approving any assistance through YPMI to IPMI, 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 institutions administrative and financial capability. As such Drs Hadi Sutanto was contracted to carry out this pre-award survey.

B. AUDIT OBJECTIVES AND SCOPE

The objectives of the survey were to determine whether :

- i. The 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.

Mr W.C. Montoney
November 16, 1989



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

The scope of our work consisted of :

- i. A review of the statement of proposed costs for the project.
- ii. A review of the recipient's legal status 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.
- iv. An analysis of the prospective recipients financial capability for performing the proposed work.

C. RESULTS OF THE PRE-AWARD SURVEY

Proposed costs

A calculation inconsistency occurred as a result of the inflation rate factor used in the proposal. The current years costs were inadvertently increased by a 10% inflation factor such that the proposed costs for the first year of the project may be overstated by as much as \$145,751. We refer you to our finding no. 1 which comments on the projects proposed costings.

Internal accounting control system

Although we do not express an opinion on the system of internal accounting control of YPMI/IPMI we have in findings nos. 2 and 3 identified conditions which if not improved could result in significant errors or irregularities.

Mr W.C. Montoney
November 16, 1989



Management capability

Subject to finding no. 4 we believe that YPMI and IPMI have the necessary management capability to successfully administer and control the proposed project.

Financial Capability

We believe that YPMI has the necessary financial capability to carry out the proposed project.

We take this opportunity to thank the personnel of USAID/Indonesia , YPMI and IPMI for the assistance extended to us in connection with this pre-award survey.

Yours sincerely,

Paul

Enclosures

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Drs. Hadi Sutanto



PRE-AWARD SURVEY OF
INDONESIAN FOUNDATION FOR MANAGEMENT DEVELOPMENT
(YPMI)

REPORT ON PROPOSED COSTINGS

AUDITOR'S OPINION

We have reviewed the costings for the proposed project which is to be administered by YPMI. 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, allocable, reasonable and necessary to accomplish the proposed project.

Based on our review and subject to implementation of the recommendation contained in finding no. 1 of this report the proposed costings will be in accordance with the above mentioned guidelines.

Hadi
—

November 16, 1989

**PRE-AWARD SURVEY OF
INDONESIAN FOUNDATION FOR MANAGEMENT DEVELOPMENT
(YPMI)**

FINDINGS

1. Proposed costs

Condition :

We were unable to substantiate or assess the reasonability of many of the proposed costs due to :

- the application of an inflation factor to the costs to be incurred in first (1989/90) and subsequent years of the project.
- the use of estimated costings based on verbal conversations with USAID/Indonesia and suppliers.
- the inclusion of arbitrary contingency costings.
- the use of a standard exchange rate (US\$1.00 = Rp1750) for rupiah costs incurred throughout the contract period whereas such costs are likely to decrease in US dollar terms over the life of the project.

Criteria :

The proposed costings should be prepared on current, complete and accurate pricing data. As such documentary evidence should be available to support the costings, quotations and calculations. Although the proposal in prepared in US dollars it should reflect estimated rupiah costs translated at estimated exchange rates for each year of the project.

Cause :

There were little or no source documents or workpapers obtained or prepared to support the proposed costs. The application of an inflation factor to the proposed costs of 1989/90 arose due to the preparation of the original proposal commencing with the 1988/89 year.

The effect of the application of an inflation factor to the 1989/90 costs in the current proposal and the US dollar equivalent of local rupiah costs was overlooked when the final proposal was submitted.

**PRE-AWARD SURVEY OF
INDONESIAN FOUNDATION FOR MANAGEMENT DEVELOPMENT
(YPMI)**

FINDINGS

1. Proposed costs (Continued)

Effect :

Unsubstantiated costs arising from verbal conversations with USAID/Indonesia and contingency costings amount to \$744,551 and \$167,693 respectively (see appendix I)

In respect of the inflation factor the proposed costs may be overstated by as much as \$145,751 in the first year plus the compounded effect in subsequent years. The US dollar costings for rupiah costs are likely to overstate the actual costs unless the increase in local rupiah costs is equivalent to the slippage in the value of the rupiah against the US dollar.

Recommendation :

The proposal should be reworked such that :

- all contingency factors are separately identified and costed.
- costings based on verbal conversations with USAID/Indonesia be referred to A.I.D. regulations
- first year costs be reviewed for reasonableness such that the inflation factor is eliminated and the necessary cumulative effects in subsequent years adjusted and,
- estimated rupiah costs be identified for all years and translated at estimated exchange rates for those years.

Client comment :

IPMI is in the process of preparing a revised budget in which previous budget estimates will be revised to reflect current costs. The revisions will include the following :

1. The format of the previous budget will be revised to eliminate an inflation factor in the first year.
2. Separate inflation factors will be estimated for each individual line item and estimates will be included of Rupiah and the US Dollar inflation during the three years of the project and built into the individual line items where necessary.

**PRE-AWARD SURVEY OF
INDONESIAN FOUNDATION FOR MANAGEMENT DEVELOPMENT
(YPMI)**

FINDINGS

1. Proposed costs

Client comment : (Continued)

3. An estimate will also be included of Rupiah/US Dollar exchange rates and this will be calculated into relevant budget items.
4. Costs based on information from USAID contract office, etc. will be discussed as necessary in budget review meetings with USAID finance office, contract office. etc. Any other documentation to support estimates included in the proposal will be available upon request.
5. The revised budget will also include an explanation regarding costs which may have to be covered through the contingency fund.

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**PRE-AWARD SURVEY OF
INDONESIAN FOUNDATION FOR MANAGEMENT DEVELOPMENT
(YPMI)**

REPORT ON INTERNAL ACCOUNTING CONTROL SYSTEM

AUDITOR'S OPINION

We have reviewed the internal accounting and administrative control system of YPMI or its educational institute (IPMI). Our review was based on the criteria set forth in the statement of work for the pre-award survey of YPMI/IPMI 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 do not constitute an audit of any financial statements prepared by YPMI/IPMI. Our review was therefore more limited than would otherwise be the case for a normal audit of YPMI/IPMI.

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 control of YPMI/IPMI as it would relate to the future projects funded by USAID/Indonesia. However our review disclosed the conditions noted in the accompanying findings nos. 2 and 3 which in our opinion result in a relatively high risk that errors or irregularities in amounts that would be material to the value of the project funded may occur and not be detected within a timely period.

Hadi Sutanto

November 16, 1989

**PRE-AWARD SURVEY OF
INDONESIAN FOUNDATION FOR MANAGEMENT DEVELOPMENT
(YPMI)**

FINDINGS

2. Internal accounting control system

Condition :

A number of internal controls necessary to ensure a strong control environment have not been implemented by YPMI. Those internal controls not in existence include; the preparation of regular bank reconciliations, the use of two check signatories, notation of payment documentation to prevent resubmission, approval of payment vouchers, and the lack of a formal general ledger.

Criteria :

The actual accounting control system should ensure A.I.D. funds are safeguarded against loss from unauthorized use or disposition and transactions are authorized and recorded properly to permit preparation of financial reports in accordance with guidelines contained in the A.I.D. Handbook.

Cause :

Implementation of the necessary controls has not been carried out due to the lack of properly documented accounting policies and procedures and the ability of the current accountant to extract the necessary financial data and information from the existing records for YPMI internal reporting purposes.

Effect :

If the current accounting procedures and policies are not improved and the grant funds proposed are approved by USAID/Indonesia then they will not be subject to the necessary internal controls required by generally accepted accounting procedures and A.I.D. regulations.

**PRE-AWARD SURVEY OF
INDONESIAN FOUNDATION FOR MANAGEMENT DEVELOPMENT
(YPMI)**

FINDINGS

2. Internal accounting control system (Continued)

Recommendation :

YPMI should either

(i) implement an internal accounting control system which ensures compliance with A.I.D. Handbook requirements. YPMI should evidence action to be taken by forwarding to USAID/Indonesia the timetable and manner for upgrading their control systems,

or,

(ii) request that the proposed funding be provided directly to IPMI by USAID/Indonesia. YPMI and IPMI should formally document their internal reporting and certification procedures to ensure compliance with the funding agreement's reporting requirements.

Client comment :

The client concurs with the recommendation (ii) that proposed funding be provided directly to IPMI by USAID/Indonesia. In this case YPMI and IPMI would document their internal reporting and certification procedures to ensure compliance with those procedures specified in the funding agreement.

**PRE-AWARD SURVEY OF
INDONESIAN FOUNDATION FOR MANAGEMENT DEVELOPMENT
(YPMI)**

FINDINGS

3. Internal accounting control system

Condition :

Although IPMI has developed written policies and procedures there is little supervisory control exercised over the accounting functions e.g. journal preparation, preparation of financial reports and the procurement procedures do not require written quotations.

Criteria :

Adequate supervision of the accounting functions is necessary to ensure compliance with established controls and to ensure financial data is properly prepared.

Formal procurement procedures are necessary to ensure IPMI's purchases are commercially sound and efficiently priced.

Cause :

The lack of supervisory control has resulted from the lack of accounting personnel who are capable of performing the more responsible duties thus allowing the department supervisor to perform the necessary supervisory function.

Effect :

Should formal supervisory control procedures not be established and implemented errors or irregularities in the financial data or transactions may occur and not be detected within a reasonable time frame.

**PRE-AWARD SURVEY OF
INDONESIAN FOUNDATION FOR MANAGEMENT DEVELOPMENT
(YPMI)**

FINDINGS

3. Internal accounting control system (Continued)

Recommendation :

The policies and procedures of IPMI should be expanded to include the :

- review and approval by the accounting and/or finance manager of IPMI's accounting functions, journal preparation, A.I.D. bank reconciliations and USAID/Indonesia financial data and reports. To ensure these supervisory functions can be carried out additional accounting staff should be employed, and
- brief but specific procurement procedures should be established in writing and include the need for written quotations from a minimum number of suppliers. These procedures would need to be responsive to the need for more stringent controls over the procurement of higher value goods. Compliance with such procedures should be subject to the review and approval by the accounting and/or finance manager as and when goods are acquired.

Client comment :

An experienced accountant has been hired as a permanent staff member to review and revise IPMI's accounting and finance procedures. IPMI's accounting and finance procedures will be revised where necessary to ensure compliance with procedures specified in the funding agreement with respect to money obtained from USAID. The procedures will also be revised to include a set of formal procedures for procurements based on recommendations included in the audit report.

The accountant's responsibilities also include the supervision of bookkeepers and cashiers employed by IPMI to ensure compliance with procedures established by the accountant and with those procedures specified in the funding agreement with respect to money received from USAID.

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PRE-AWARD SURVEY OF
INDONESIAN FOUNDATION FOR MANAGEMENT DEVELOPMENT
(YPMI)

REPORT ON MANAGEMENT CAPABILITY

AUDITOR'S OPINION

We have performed a review of YPMI's capabilities 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 YPMI/IPMI. 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 YPMI/IPMI has the management capability to provide sufficient administration and span of control in relation to the proposed USAID/Indonesia agreement.

Paul
—

November 16, 1989

**PRE-AWARD SURVEY OF
INDONESIAN FOUNDATION FOR MANAGEMENT DEVELOPMENT
(YPMI)**

FINDINGS

4. Management capability

Condition :

Although the current staffing levels are appropriate for YPMI's ongoing activities should USAID/Indonesia approve the proposed grant YPMI's capability to manage the proposed USAID/Indonesia funding of the project is limited by its lack of accounting personnel.

Criteria :

The level of managerial expertise should be related to the activities of YPMI. As such given the need to properly administer approximately \$1.6 million in additional funds from USAID/Indonesia YPMI's financial management expertise should be upgraded accordingly.

Cause :

Currently all financial activities are controlled and administered by only one employee.

Effect :

USAID/Indonesia funds may not be properly accounted for, recorded and the necessary financial reports prepared accurately and on a timely basis.

**PRE-AWARD SURVEY OF
INDONESIAN FOUNDATION FOR MANAGEMENT DEVELOPMENT
(YPMI)**

FINDINGS

4. Management capability (Continued)

Recommendation :

Either :

YPMI should strengthen its managerial capability for this proposed grant through the employment (part or full time) of an experienced accountant who would be responsible to the current accountant for handling the accounting and reporting requirements of this proposed grant

or,

the funding provided by USAID/Indonesia, should be made directly to IPMI although the responsibility for administration of the funds would rest with YPMI the legally constituted entity and contracting party.

Client comment :

The client concurs with the recommendation that the funding be provided directly to IPMI although the responsibility for the administration of the funds would rest with YPMI the legally constituted entity and contracting party.

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**PRE-AWARD SURVEY OF
INDONESIAN FOUNDATION FOR MANAGEMENT DEVELOPMENT
(YPMI)**

REPORT ON FINANCIAL CAPABILITY

AUDITOR'S OPINION

We have performed a review of YPMI's financial capability for financing the work required under the proposed USAID/Indonesia agreement. Our review was 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).

Based on our review, we believe that YPMI has the financial capability to provide sufficient financial support in relation to the proposed agreement.

November 16, 1989

APPENDIX 1

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