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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

REVIEW OF FINANCIAL REPORTING SYSTEMS OF EIGHT LAC BUREAU CENTRALLY FUNDED PROJECTS

FINAL REPORT

FEBRUARY 9, 1988

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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I. INTRODUCTION

Our assessment of the financial reports submitted to the LAC Bureau was made in accordance with the requirements of our contract with AID dated September 18, 1987. The engagement covers the period October 1987 through January 1988 and was undertaken by Price Waterhouse, International Consulting Services, Washington, D.C. The team members were:

William H. Lawrence, Project Manager
Mara Fellouris, Financial Analyst
Myrna Villaralbo, Financial Analyst (Price Waterhouse-Manila office)

We would like to express our appreciation to the staff of the LAC Bureau and M/FM/PAFD for their assistance and cooperation in conducting this assessment. We also extend our thanks to the staff at each of the implementing organizations visited.

A. Statement of Work

Price Waterhouse was engaged by the Latin America and Caribbean (LAC) Bureau of the U.S. Agency for International Development to assess the financial reporting systems of several organizations implementing LAC Bureau funded projects. The projects and organizations reviewed include:

- o Child Survival: Accelerated Immunization project, Pan American Health Organization
- o Technology Development and Transfer in Health:
  - Health Care Financing component, Research Foundation of the State University of New York at Stony Brook
  - Clinical Training component, Interamerican College of Physicians and Surgeons
  - Health Management Training component, Association of University Programs in Health Administration
- o Malaria and Essential Drugs project, Pan American Health Organization
- o Cooperative Neighborhood Improvement and Job Program for Central America, Cooperative Housing Foundation
- o Presidential Training Initiative for the Island Caribbean (PTIIC), United Schools of America

o Regional Technical Aid Center (RTAC) II, Aguirre International

Our review covered the financial information and reporting systems of the above projects/organizations with the objective of ascertaining compliance with the requirements for reporting and adequacy of information provided for management oversight. The review was also aimed at providing information to the AID Project Officer as to the quality and timeliness of financial information supplied by each organization as well as the adequacy of the organizations' overall internal controls and systems and procedures. Based upon our findings, recommendations have been developed to enhance the AID reporting of each organization as well as to improve the LAC Bureau's project financial monitoring.

Our review does not constitute an audit of the projects or organizations and therefore an opinion has not be rendered. In addition, this review does not constitute a technical evaluation of any project.

B. Methodology

In order to make a meaningful assessment of the project financial reporting system of each organization, we designed a comprehensive work program which included consideration of the implementing organizations' internal controls (segregation of duties and approval of expenses) and systems and procedures (recordkeeping, disbursements, subcontracting, cash management and filing) in order to put our review of the financial reports into the proper context. Also included in the program was a review of project history and the nature of the implementing organization.

We employed various methodologies to conduct our assessment. These included site visits to each implementing organization in order to interview staff both directly and indirectly related to the project, inspect project accounting records, and trace several project transactions to assess the adequacy of documentation requirements for payment. Site visits were made in Washington, D.C. and surrounding area; New York City; Stony Brook, New York; San Mateo, California; and Miami, Florida.

At AID/W we interviewed the appropriate LAC Bureau Project Officer and reviewed project files. In addition, we interviewed staff at W/FM/PAFD including the Chief of the Letter of Credit section and reviewed their files as well. We also interviewed LAC Bureau management such as the Controller, Deputy Controller and Deputy Director of LAC/DR in order to ascertain their financial information requirements.

In terms of financial reporting, we reviewed and analyzed

the financial reports and vouchers submitted to M/FM/PAFD and the project status reports and accompanying financial information provided to the LAC Bureau to determine compliance with the requirements of the grant/cooperative agreement/contract as well as the adequacy of information provided to AID.

C. Limitations

The principal limitation we faced in conducting this review concerns the Pan American Health Organization (PAHO). We were unable to review project records since PAHO is an international organization and therefore not required to subject its books and records to examination by groups other than its designated external auditor. As a result, we could not confirm first hand systems and procedures or internal controls as defined by those interviewed. In addition, we had to submit our questions in advance for review and approval by PAHO's legal counsel. This inhibited our analytical process during the interview as we were only allowed to ask questions from the list of those submitted. Finally, we were unable to interview the accounting staff who actually do the work to validate the information given to us by senior management. Thus, with regard to internal controls and systems and procedures, our information is based to a large extent on what we were told as opposed to what we were able to observe.

D. Findings

Detailed findings and recommendations regarding each project/organization reviewed are discussed separately in Sections IV through XI. In addition, general findings and recommendations with regard to the LAC Bureau's project financial monitoring system overall are provided in Section III. A summary listing of findings and recommendations is included in Section II, Executive Summary.

II. EXECUTIVE SUMMARY

A. Introduction

Price Waterhouse was engaged by the Latin America and Caribbean (LAC) Bureau of the U.S. Agency for International Development to assess the financial reporting systems of several organizations implementing LAC Bureau funded projects. The projects and organizations reviewed include the Child Survival: Accelerated Immunization project, Pan American Health Organization; the Technology Development and Transfer in Health project, implemented by the Research Foundation of the State University of New York at Stony Brook, the Interamerican College of Physicians and Surgeons and the Association of University Programs in Health Administration; the Malaria Control and Essential Drugs project, Pan American Health Organization; the Cooperative Neighborhood Improvement and Job Program for Central America, Cooperative Housing Foundation; the Presidential Training Initiative for the Island Caribbean (PTIIC) project, United Schools of America; and the Regional Technical Aid Center (RTAC) II, Aguirre International.

Our review covered the financial information and reporting systems of the above projects/organizations with the objective of ascertaining compliance with contractually required reporting and the adequacy of information provided to AID for oversight. The review was also aimed at providing information to the AID Project Officer as to the quality and timeliness of financial information supplied by each organization as well as to the adequacy of the organizations' overall internal controls and systems and procedures. Based upon our findings, recommendations have been developed to enhance the AID reporting of each organization as well as to improve the LAC Bureau's project financial monitoring.

Our review does not constitute an audit of the projects or organizations and therefore an opinion has not be rendered. In addition, this review does not constitute a technical evaluation of each project.

Various methodologies were used to conduct the engagement. These include interviewing AID/W staff in the LAC Bureau and M/FM/PAFD and site visits to each implementing organization to interview staff, examine records, and trace several project transactions to assess the adequacy of documentation requirements for payment. Financial reports submitted to the LAC Bureau and M/FM/PAFD were reviewed and analyzed.

The principal limitation we faced in conducting this review concerns the Pan American Health Organization (PAHO). We were unable to review project records since PAHO is an international organization and therefore not required to subject its books and records to examination by groups other than its designated external auditor. We were also limited to interviewing senior management only, in the presence of PAHO's legal counsel and from

a list of questions submitted previously in writing. Thus, with regard to internal controls and systems and procedures, our information is based to a large extent on what we were told as opposed to what we were able to observe.

B. Principal Findings and Recommendations

Below we indicate our principal findings and recommendations with regard to each project/organization assessed as well as the LAC Bureau's system overall. Detailed findings and recommendations are provided in Sections III through XI.

1. Presidential Training Initiative for the Island Caribbean project (PTIIC), United Schools of America

Our brief review of this project suggests that, at a minimum, the recordkeeping systems of USA are inadequate to comply with the financial and reporting requirements of their contractual arrangement with AID. We recommend that an audit of USA's records of the PTIIC project be performed. Inadequate internal controls, untimely recordkeeping, apparent cash management shortcomings (including handling of AID cash advances), and reports which do not reconcile all point to the immediate need to perform a comprehensive audit which would clearly define the present problems, quantify disbursements and advances, if any, which may be inappropriate, and develop comprehensive recommendations for improvement of USA's present recordkeeping systems and procedures.

We understand that AID has taken steps to implement this recommendation for a financial audit and has instituted actions designed to thoroughly analyze the advance account.

In Section X, we provide specific recommendations to improve the project's reporting, internal controls and systems and procedures.

2. LAC Bureau Project Financial Monitoring System

Our findings indicate that the financial information required of recipients is not always clearly indicated in the grant/cooperative agreement/contract. In addition, requirements differ from recipient to recipient. We have also observed that there appears to be limited coordination with M/FM/PAFD and as a result, AID Project Officers are not familiar with M/FM/PAFD's role in project financial management or its reporting requirements. Our recommendations include that the Project Officers assume a proactive rather than reactive role in the financial management of the projects under their responsibility. We recommend increased coordination with M/FM/PAFD and consistency and formalization of reporting requirements for recipients. We also recommend increased communication with

recipients to provide guidance in meeting the financial reporting requirements. Finally, we recommend basic financial management training for LAC Bureau Project Officers to assist them in their fiscal management responsibilities.

3. Child Survival: Accelerated Immunization project, Pan America Health Organization (PAHO)

Our findings indicate that the financial reports submitted are in compliance with grant requirements. However, they do not include information requested informally by the AID Project Officer for several reasons which include not understanding the information requirements and difficulty in meeting these requirements within PAHO's current automated accounting system. We therefore provide recommendations and sample report formats which address all of the LAC Bureau's financial information requirements and can be prepared from PAHO's existing recordkeeping system. Based on interviews with senior management, PAHO's overall internal controls and systems and procedures appear adequate. However, as indicated above, we were not able to confirm this through personal observation.

4. Technology Development and Transfer in Health: Health Care Financing component, Research Foundation of the State University of New York at Stony Brook (RF/SUNY)

Our findings indicate that the financial information reported is in compliance with contract provisions and appears to be based on a recordkeeping and financial reporting system with sufficient accountability. Overall, RF/SUNY's internal controls and systems and procedures appear adequate. However, we observed that the financial information presented to the LAC Bureau is inadequate for management purposes and offer recommendations to provide increased management oversight. In terms of short-term consultant procedures, we recommend they become more formalized to include a legally binding agreement between the consultant and RF/SUNY.

5. Technology Development and Transfer in Health: Clinical Training component, Interamerican College of Physicians and Surgeons (ICPS)

Our findings indicate that the financial reports submitted are in compliance with cooperative agreement provisions although the reports submitted to M/FM/PAFD are not timely. We provide recommendations aimed at improving the reporting system and expanding information presented for management purposes. From our limited review, ICPS's internal controls with regard to the project appear inadequate. We provide recommendations aimed at ensuring a segregation of duties, instituting authority limits, and enforcing required project transaction approvals.

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6. Technology Development and Transfer in Health: Health Management Training component, Association of University Programs in Health Administration (AUPHA)

Our findings indicate that the financial reports submitted are in compliance with cooperative agreement provisions and appear to be based on a reporting system with sufficient accountability. In addition, AUPHA's overall internal controls and systems and procedures appear adequate. We provide recommendations aimed at providing additional information to facilitate management oversight and formalizing consultant procedures to include a legally binding agreement between the consultant and AUPHA.

7. Malaria and Essential Drugs Project, Pan American Health Organization (PAHO)

Our findings indicate that the financial reporting is in compliance with grant requirements although the reports submitted to M/FM/PAFD are not timely and one report (SF 272) should be submitted monthly rather than quarterly. We observed that the financial information provided to the LAC Bureau is inadequate for management oversight. We provide recommendations aimed at monitoring the submission of PAHO's reports to ensure timeliness and expanding the financial information included in the progress report submitted to the LAC Bureau.

8. Cooperative Neighborhood Improvement and Job Program for Central America, Cooperative Housing Foundation (CHF)

Our findings indicate that the financial reporting is in compliance with cooperative agreement requirements and appears to be based on a reporting system with sufficient accountability. Overall, CHF's internal controls and systems and procedures appear adequate. We provide recommendations aimed at both streamlining the financial information currently reported to the LAC Bureau and expanding it to provide additional information needed for management oversight. We also provide recommendations with regard to internal reporting, disbursement procedures and loan/grant management.

9. Regional Technical Aid Center II project (RTAC II), Aguirre International

Our findings indicate that the financial reporting is in compliance with contract requirements and appears to be based on a system with adequate controls. In addition, the organization's overall internal controls and systems and procedures appear adequate from the standpoint of accountability. However, the financial information provided in the quarterly and semi-annual

progress reports is inadequate for management oversight. Our principal recommendations for improvement include expanding the financial information presented in the progress reports submitted to the LAC Bureau, instituting authority limits for check payments and conducting audits of participating bookstores/distribution centers.

III. LAC BUREAU PROJECT FINANCIAL MONITORING SYSTEM

A. Introduction

The LAC Bureau has direct management responsibility for several projects administered under grants, cooperative agreements or contracts with various implementing organizations (IO). Critical to this responsibility is adequately monitoring the financial management of each project, a responsibility shared by the implementing organization, AID's Office of Financial Management and the LAC Bureau Project Officers. The LAC Bureau's role is accomplished primarily through personal contact by the AID Project Officer with the IO and through quarterly reports submitted by each organization.

Price Waterhouse was retained to review the financial reporting systems of eight LAC managed projects. This review included an analysis of the financial reports submitted to ascertain compliance with grant/cooperative agreement/contract provisions and adequacy of information provided for management oversight. In addition, observations with regard to each IO's overall systems and controls which directly impact the generation of financial information have been made. Our findings for each IO and recommendations to improve both the IO's financial reports as well as its overall systems have been detailed in Sections IV through XI.

As a result of our review of these eight projects, we have been able to observe at length the role played by the LAC Bureau Project Officers in the financial management of the projects in their portfolio. We have uncovered common problems in this regard. Below are our findings and recommendations to improve the Bureau's financial monitoring system of grants/cooperative agreements/contracts and to enhance the quality and timeliness of financial information required of the implementing organizations.

B. Findings

1. Project Financial Management and Internal Controls

For centrally/regionally funded projects, the project's financial management and internal controls system includes three principal parties: the implementing organization, AID's Office of Financial Management and the implementing Bureau, in this case, LAC. Each party has a unique function to play and is essential for an effective project financial management and internal controls system. Below we define our perception of what each function should entail followed by our observations during the course of our interviews with these three groups.

a. Role of the Implementing Organization (IO)

The Project Manager at the IO should be responsible for day-

to-day project management, both technical and financial. His/her financial management responsibilities include the approval of each project disbursement, ensuring appropriateness of cost and that expenses are within budget line item and in accordance with relevant AID provisions. In addition, the IO Project Manager should monitor the IO's system of project internal controls to ensure that AID funds are properly safeguarded. This includes ensuring that proper segregation of duties exist and that approvals for expenses/disbursements are adequate. Finally, the IO Project Manager should interact with the IO's Accounting Office to ensure that the project's recordkeeping system can produce the financial information required by AID. On a continuing basis, confidence in the project's overall existing internal controls and systems and procedures on the part of the IO Project Manager should be relayed to the LAC Project Officer.

We observed during the course of our review that all Project Managers, with the exception of the United Schools of America, adequately assume the above responsibilities with regard to project disbursements. However, in several instances, the IOs are large in size with separate financial offices and as a result, the Project Manager may not be intimately familiar with the accounting procedures and internal controls in place. Although we believe that an understanding and affirmation of the adequacy of the project's internal controls and systems and procedures should be relayed to the LAC Bureau Project Officer, frequently it is not since such information may not be known or not requested.

b. Role of M/FM/PAFD

AID's Office of Financial Management (M/FM) is the central disbursing office for the Agency's operational and program expenditures. Disbursements for centrally/regionally funded projects are handled by M/FM's Program Accounting and Finance Division (PAFD). Financial management responsibilities of M/FM/PAFD for centrally/regionally funded projects include monitoring the status of project obligations funded under various mechanisms including letter of credit; processing financial reports and vouchers submitted by the IO, ensuring that the proper Bureau Project Officer certifications have been performed; and disbursing project funds, ensuring that the required financial information has been provided.

As part of this engagement, we reviewed certain M/FM/PAFD procedures and made the following observations.

According to our interviews with M/FM/PAFD staff, for letter of credit recipients, M/FM/PAFD monitors report submissions only when request for funds are made. At that time, the recipient's file is reviewed and if reports are outstanding, the recipient is contacted for an explanation. As a result, reports are often

submitted on an untimely basis.

The Financial Analyst at M/FM/PAFD is responsible for reviewing/processing the SF 272 which shows the status of cash on hand. The Voucher Examiner is responsible for reviewing/processing the SF 269 and SF 1034 which show expenditures for the reporting period. There is currently only one Voucher Examiner at PAFD, and as a result, processing of SF 269 reports and SF 1034 vouchers is many months in arrears.

The delay in processing of the SF 1034 and SF 269 may cause problems for the recipient/contractor if the report/voucher is rejected by the Project Officer. Although the implementing organization's recordkeeping system should be able to track previous period financial information, notifying them of reporting problems on a timely basis would facilitate responding to such problems. In addition, it would resolve errors before the next submission rather than carrying forward the same error, which then requires modifying more than one report/voucher.

Regarding report/voucher certification, in the case of the SF 269 which is required for grants and cooperative agreements funded under a letter of credit, once the voucher is processed, a copy is submitted after the fact to the Project Officer for approval. If any problems are uncovered and the Project Officer rejects the voucher, PAFD will modify the information previously entered in the system. The voucher is sent to the Project Officer with a two-way memo, however, its return is not monitored. Our findings indicate that on a number of occasions, there is no Project Officer approval on file at PAFD. It is unclear whether the official memo has not been filed or whether it was never returned by the Project Officer. The end result is that perhaps information which M/FM has already processed is inaccurate.
In the case of the SF 1034, the voucher is not processed until it has been submitted by PAFD to the Project Officer and returned with the latter's certification.

Our findings also indicate that M/FM/PAFD is apparently not enforcing a number of its financial reporting requirements. Concerning the SF 272, AID requires that it be submitted on a monthly basis if the recipient withdraws more than one million dollars per year. This requirement is not currently enforced by M/FM in the case of PAHO. Their justification is that it is hard enough to get PAHO to submit reports on a quarterly basis. (PAHO has consistently submitted reports 60 to 90 days late.) Concerning the SF 269, according to OMB, grantees are not required to report by budget line item. However, they are required to report expenditures by activity. Many currently do not list expenditures by activity but rather, report one figure for expenditures. This is accepted by M/FM/PAFD on the basis that the Project Officer has certified the report. M/FM/PAFD has

indicated that it does not have the staffing capability to enforce these requirements as it is currently handling hundreds of centrally/regionally funded projects.

As we discuss below in our conclusions/recommendations, we believe some of the current problems discussed above would be alleviated if the Project Officer were to also get copies of the reports submitted to M/FM/PAFD directly from the implementing organization. He/she would be able to review the submission at once and contact the implementing group if there were any problems. In addition, the Project Officer would be able to monitor the timeliness of the submissions and compliance with AID regulations as part of his/her project administration responsibilities.

c. Role of the LAC Bureau Project Officers

The LAC Bureau Project Officer also plays a fundamental role in the financial management of an AID project. However, rather than performing a day-to-day management role as does the IO Project Manager or processing financial information as does M/FM/PAFD, the LAC Project Officer provides both technical and financial management oversight. In the latter case, this includes monitoring the rate of quarterly (or monthly if required) spending and ensuring that the project disbursements reported are within the original budget line items and appropriate given project progress. In a sense, the LAC Project Officer performs a "post-audit" function (review of disbursements after the fact) rather than a "pre-audit" function (review of disbursements before they are made) which is performed by the IO Project Manager.

In addition, as part of the LAC Project Officer's project administration responsibilities, he/she should ensure to the extent possible that all grant/cooperative agreement/contract provisions are being met. This includes monitoring all required reporting (technical and financial). In our view, the Project Officer should also be assured that the IO's recordkeeping system can adequately produce the financial information required by AID's various offices. Moreover, the AID Project Officer should be knowledgeable enough of the IO's internal controls and systems and procedures to feel confident that AID funds are properly safeguarded.

In sum, the AID Project Officer should be familiar with all grant/cooperative agreement/contract provisions and AID requirements, provide guidance to the IO, if necessary, to meet these provisions/requirements, and monitor their implementation.

During the conduct of this engagement, we were able to make certain observations with regard to the current role and

responsibilities assumed by the Bureau's Project Officers. Project Officers are expected by M/FM/PAFD and LAC/DR management to be sufficiently knowledgeable about project progress to certify the reports and vouchers submitted. The head of the letter of credit group at PAFD indicated that Project Officers should be aware of such items as salaries charged, major equipment buys and indirect rates in order to flag any deviations. This then requires reporting to be broken down at a minimum by budget line item, but ideally, within budget line item. In this way, the Project Officer can determine what salaries are being charged, what equipment has been purchased and so on. As indicated above, reports currently submitted in many instances include cumulative expenditures with no breakdown. Thus Project Officers are certifying reports without having sufficient information.

Our findings indicate that the LAC Bureau requires implementing organizations to provide financial information by region and funding source, e.g. LAC funds, CA funds, Child Survival funds and Health funds. We have noted that insufficient guidance has been provided by the Project Officers to the implementing organizations to assist them in meeting this requirement. In particular, funds obligated do not clearly differentiate between sources. We also noted that Project Officers approve reports submitted to M/FM/PAFD which do not differentiate between funding sources. M/FM/PAFD has indicated that it is the Project Officer's responsibility to enforce this requirement. If funding sources are not indicated, M/FM/PAFD will liquidate the obligations on a FIFO (First In, First Out) basis according to the date obligations were made. Thus, M/FM/PAFD's information on total expenditures of Child Survival or Health or LAC funds may be inaccurate.

The Assistant Director of LAC/DR indicated that he expects the LAC Project Officers to be able to justify their certification of each report/submission. We believe that to do this, the Project Officers should be able to attest to the adequacy of the organizations' reporting systems. This requires an understanding of and confidence in the organizations' overall internal controls and systems and procedures. In many instances, we have found that the LAC Project Officers are not sufficiently knowledgeable in this regard.

Overall, our findings indicate that many Project Officers are not familiar with M/FM/PAFD's reporting requirements. They have limited financial training and do not know how to interpret the reports submitted. Moreover, they do not have the required training to assess an organization's internal controls and systems and procedures, including recordkeeping. The Project Officers recognize their financial management responsibilities but have indicated that they have no resources to assist them in

meeting them. They have expressed concern that they are technical experts and are being required to perform a function for which they have limited training. The Bureau should consider training Project Officers in basic financial management techniques such as analyzing reports as well as what constitutes standard internal controls. In addition, resources should be identified to provide assistance to Project Officers should fiscal questions/concerns arise.

In conclusion, there are three parties responsible for ensuring adequate project financial management and internal controls - the implementing organization, M/FM/PAFD and the implementing Bureau, in particular, the Project Officer. We have observed that there exists both uncertainty and misperceptions among these three groups regarding the role to be played by each to ensure an adequate level of financial control. We have presented some initial guidelines regarding the responsibilities of each group. However, we believe that a more thorough analysis in the form of an organizational review would serve to clarify roles and responsibilities, ultimately strengthening project financial management and internal controls.

2. Financial Information Requirements

Our findings indicate that the financial information required of recipients is not always clearly indicated in the grant/cooperative agreement/contract. As a result, recipients/contractors have on several occasions expressed frustration with AID reporting in terms of the Agency's information requirements. This is compounded by the informality used by AID Project Officers in relaying these requirements. We have observed that these requirements are often relayed verbally rather than formally through a PIL (project implementation letter) or an official memorandum. In an informal environment, chances that requirements will be misunderstood or unfamiliar to new project personnel (in both the recipient organization and AID) are greatly increased.

In our review of the eight projects' reporting requirements, we have noted that the requirements differ from project to project. While we acknowledge that each project is unique and may have individual requirements, certain financial information should be required of all projects to assist the Project Officer in his/her fiscal management responsibilities. At a minimum, recipients should report by budget line item, and include budgeted amount, current period disbursements and accrued expenditures, and cumulative disbursements and accrued expenditures. In addition, the reports submitted to the LAC Bureau should include both program and operational costs, reported separately. Our findings indicate that most recipients/contractors are not reporting all four of the above,

and several are reporting only current period expenditures. In addition, some implementing organizations are not reporting accrued expenditures as required according to Handbook 13. Finally, we observed that several IOs are not reporting program and operational costs separately.

In terms of the financial reports and vouchers prepared for M/FM/PAFD, there is no consistency in the requirement that copies be submitted to the LAC Bureau. Financial reports and vouchers contain information critical to monitoring the project and should be scrutinized by the Project Officer. The Project Officer is required to certify some of the reports and vouchers submitted to M/FM/PAFD, in particular, the SF 269 and SF 1034. We observed that the grants/cooperative agreements/contracts do not specify what information should be included. Every agreement should clearly identify the information needed to ensure that it is adequate for the Project Officer to justify his/her certification of the voucher. Finally, in most of the projects reviewed, M/FM/PAFD's requirements were not defined in the grant/cooperative agreement/contract but were referenced in general terms as "reports required by the Agency". In several IO reviews, we noted that compliance with M/FM/PAFD requirements was lacking because said requirements were not clearly specified in the contractual agreement with AID. To ensure that both the IO and LAC Project Officer understand M/FM/PAFD's reporting requirements, the type of reports and due dates should be spelled out.

3. Coordination with M/FM/PAFD

Our findings indicate that currently, there is limited coordination between M/FM/PAFD and the LAC Bureau with regard to financial information required of the recipients/contractors. For example, several Project Officers are not aware that M/FM/PAFD requires that the reports submitted differentiate between funding sources. Increased coordination will facilitate the design of the recipients' and contractors' reporting systems. In addition, coordinating information needs should result in similar financial information reported to M/FM and LAC Bureau, for example, by budget line item, thereby enabling the Project Officer to validate one submission against the other. This comparison is critical given that in many situations, these reports are prepared by different divisions within the implementing organization.

4. Cash Management

Our findings indicate that the implementing organization's cash management of AID funds is monitored by M/FM/PAFD through the SF 272 report which indicates the status of cash received.

However, this report is prepared on a consolidated basis and includes all cash received under a letter of credit. Thus, the figures reported include funding from any of the regional Bureaus, central Bureaus or Missions. PAHO, however, is currently submitting an individual SF 272 on a per project basis, enabling the Project Officer to assess the cash management of his/her project.

All recipients should submit individual SF 272 reports to enable the LAC Bureau to monitor the management of its cash. An alternative would be to include such information in the quarterly report submitted to the Project Officer.

C. Conclusions and Recommendations

In conclusion, we have observed several areas in the LAC project financial monitoring system which require improvement. These include current financial reporting requirements, coordination with M/FM/PAFD and the role of the LAC Project Officer in the financial management of the project. We provide recommendations below to address these areas.

1. We recommend that at the outset of each project, the AID Project Officer and appropriate staff from M/FM/PAFD discuss financial information needs in order to coordinate reporting. This will facilitate reconciliation of reports submitted by different divisions within an implementing organization. In addition, this will enable the Project Officer to understand and therefore enforce M/FM/PAFD requirements as part of his/her project administration responsibilities.

2. We recommend that the Project Officer and a LAC Bureau Financial Analyst meet with the implementing organization to discuss reporting requirements and determine how they can best be met in light of the IO's accounting system. This will familiarize the Project Officer with the IO's accounting system, thereby avoiding situations such as the Child Survival: Accelerated Immunization project, in which the current financial reporting requirements are not compatible with PAHO's automated recordkeeping system. At this time, the Project Officer should familiarize him/herself with the project's internal controls as well.

3. We recommend that the AID Project Officer receive copies from the implementing organization of the reports submitted to M/FM/PAFD to ensure timeliness of submissions and to flag any errors on a timely basis. The Project Officer should assume the responsibility for ensuring that the implementing organization completes these reports according to AID requirements. The Project Officer should also compare these reports against the

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quarterly status report in order to ensure that the implementing organization's financial and technical units are reporting the same figures. In addition, by receiving copies from the IO, the Project Officer will know to expect them from M/FM/PAFD. This will ensure that all reports obtain the required Project Officer certification. Performing these functions are part of the Project Officer's administration responsibilities. However, they are not meant to lessen the responsibilities of M/FM/PAFD.

4. We recommend that all contracts/cooperative agreements/grants clearly identify the financial reports and information requirements both for the LAC Bureau and M/FM/PAFD. They should serve as a reference to both the recipient and the Project Officer, particularly with regard to the reports required by M/FM/PAFD. This is essential since M/FM/PAFD has modified some of its requirements but has not updated the written reporting guidelines provided to the recipients. Once a project is underway, any changes in reporting requirements should be formalized and not done verbally. This will facilitate the transition should new project staff be retained. Regarding the requirement to differentiate by funding source, each additional obligation should indicate the funding source(s) and should provide a budget breakdown so that the implementing organization knows exactly how to liquidate the expenditures.

5. We recommend that all implementing organizations be required to submit financial information by budget line item and include for each: budgeted amounts, current disbursements and accrued expenditures, and cumulative disbursements and accrued expenditures. Such information should be presented in both the SF 269 report submitted to M/FM and in the quarterly report submitted to the Project Officer. The Project Officer cannot justify his/her certification of the SF 269 report without this information. Ideally, information should provide a breakdown by budget line item, particularly for line items such as salaries, other direct costs, supplies and equipment. The quarterly reports submitted to LAC should include both program costs and administrative costs, and should be clearly defined as such.

6. We recommend that a separate SF 272 cash status report should be prepared for each LAC project in order to monitor the cash management of the implementing organization with respect to LAC funds. An alternative is to include cash management information in the quarterly report. Information reported should include beginning cash on hand, cash received during the reporting period, disbursements and remaining cash on hand. The LAC Project Officer must assume responsibility for monitoring the cash management of LAC Bureau funds.

7. We recommend that the Project Officer assume the appropriate financial management responsibilities of the project. As we have indicated, responsibility for ensuring adequate project financial management and internal controls rests with the implementing organization, M/FM and the implementing Bureau. In an era where the Agency is contracting out the implementation of projects, the Project Officer's role must evolve into being both a technical consultant to the project as well as a fiscal manager. Given that the projects are implemented overseas and budget cuts forbid frequent site visits, the difficulty of ensuring fiscal responsibility is compounded. To help Project Officers meet this responsibility, we recommend that a short-term training course in basic financial management techniques and internal controls be provided and a resource within the LAC Bureau (or Agency) identified to respond to questions of a financial management nature. This should enable the Project Officer to develop an understanding of the implementing organizations' accounting systems and to be able to attest, to the extent possible, to the accountability in their systems. In sum, we believe the Project Officer needs to take a proactive role in financial management on behalf of the Bureau rather than a reactive role.

We also recommend that an organizational review of LAC be performed, concentrating on the financial management responsibilities of the Bureau and the allocation of tasks.

8. We recommend that all changes concerning a project be documented. This includes budget modifications, reporting, scope of work and staffing. Documenting changes will facilitate their implementation and serve as a reference if required.

9. We recommend that an abridged version of the Project Officer's Handbook be created to highlight the financial management and reporting issues raised in this report. It was beyond the scope of this engagement to review and assess the current Project Officers Handbook and Supplements. However, we believe that for Project Officers to enhance their capabilities, they need access to a summary document which highlights both their fiscal responsibilities and the standard financial reporting requirements for recipients. Such a document can be the basis of the financial management training discussed in the recommendation above.

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IV. CHILD SURVIVAL: ACCELERATED IMMUNIZATION PROJECT

Implementing Organization: Pan American Health Organization (PAHO)

Grant Number: CAR-0005-G-00-6971-00

AID Project Officer: Ms. Kate Jones-Patron

PAHO Project Manager: Dr. Ciro de Quadros

Project Duration: August 14, 1986 to July 31, 1991

Amount of Funding:

AID	$20.6	million
Rotary	10.7	million
IDB	5.5	million
UNICEF	5.0	million
PAHO	4.65	million

	$46.45	

Method of Payment: Letter of Credit

Persons Interviewed:

AID:
- Ms. Kate Jones-Patron, LAC/DR/HN
- Ms. Paula Feeney, LAC/DR/HN
- Mr. Al Meeks, M/FM/PAFD
- Mr. James Saunders, M/FM/PAFD

PAHO:
- Dr. Ciro de Quadros, Proj. Manager
- Mr. Peter Carrasco, Proj. Assistant
- Mr. John Fitzsimmons, Administrator
- Mr. John Hunter, Chief of Accounts
- Mr. Fred Burgos, Grants Officer
- Mr. Jay Edison, Legal Counsel

Report Format:

A. Introduction
B. Scope and Objectives
C. Methodology
D. Limitations
E. Organization Overview
F. Project Overview
G. Conclusions and Recommendations
H. Detailed Findings
   1. Reporting System
   2. Cash Management
   3. Internal Controls
   4. Systems and Procedures

A. Introduction

Price Waterhouse was engaged by the Latin America and Caribbean (LAC) Bureau of the U.S. Agency for International Development to assess the financial reporting systems of several organizations implementing LAC Bureau funded projects. One of the projects selected for review was the Child Survival: Accelerated Immunization project implemented by the Pan American Health Organization (PAHO).

An integral part of our review included visits to PAHO headquarters in Washington, D.C. in October and November, 1987. We would like to thank the PAHO staff for their assistance and cooperation in conducting this review.

B. Scope and Objectives

This review covers the financial information and reporting system of PAHO with the objectives of ascertaining a) compliance with the grant requirements for reporting and b) the adequacy of information provided in terms of management oversight. The review is also aimed at providing assurance to the AID Project Officer as to the quality and timeliness of financial information supplied by PAHO as well as to the adequacy of PAHO's overall internal controls and systems and procedures in this regard. Also included in the program was a review of the project history and the nature of the implementing organization. Based on our findings, recommendations will be developed to enhance the information and reporting system by implementing organization as well as to improve the LAC Bureau's contract monitoring system.

Our review does not constitute an audit of the project or PAHO and therefore an opinion will not be rendered. In addition, this review does not constitute a technical evaluation of the project.

C. Methodology

In order for us to make a meaningful assessment of the financial reporting system, we designed a comprehensive work program which included areas such as internal controls (segregation of duties and approval of expenses) and systems and procedures (recordkeeping, disbursements, subcontracting and cash management). However, as is indicated below in the discussion on limitations, we were unable to fully implement the program due to PAHO's status as an international organization.

In conducting this review therefore, interviewing was used as the methodology for fact finding. PAHO personnel interviewed were limited to the Project Manager and his assistant, the Chief of Accounts, the Legal Counsel and the Grants Officer. PAHO is an international organization and as such, its independence and the

integrity of its operations within the framework of its charter must be respected by member states.

In order to supplement information obtained, reports submitted to M/FM/PAFD and LAC/DR/HN were analyzed. Moreover, the Price Waterhouse team attended a meeting between AID and PAHO personnel involved in the project to discuss reporting requirements for the project. Finally, the AID Project Officer, the Chief of LAC/DR/HN and the Financial Analyst and Voucher Examiner at M/FM/PAFD were also interviewed.

D. Limitations

In the conduct of this review, the following limitations were encountered:

o Records were not available to the review team for inspection.

As mentioned above, PAHO is an international organization created by international agreement of which the United States is a signatory. AID Handbook 1, Supplement B, dated July 16, 1984, Pages 16-19, item 1.a(2) states that "...It is a general policy principle that international organizations, composed of member nations, cannot be expected to subject their books and records to inspection by officials of each country participating in the organization. Accordingly, AID generally relies on the international organization's management, including internal auditing and procurement policies and procedures." As records were not available to the review team for inspection, we could not confirm the recordkeeping/disbursement procedures nor internal controls as explained to us during our interviews.

o All questions which the review team planned to ask of the Chief of Accounts during the interview were required to be submitted in advance for review and approval by PAHO's legal counsel.

During the interview, the review team was limited to the questions submitted in writing. In addition, the Chief of Accounts agreed to meet with the Price Waterhouse team only in the presence of PAHO's legal counsel. As a result, we were placed in a situation whereby we had to carefully choose our words so as not to appear as going beyond an acceptable level of inquisitiveness. This inhibited our analytical process.

o We were not able to interview the accounting staff.

An essential factor to understanding the operations of an organization is to speak with the staff who perform the work. In this way, one can assess procedures and controls from the standpoint of what is actually done as opposed to what should be

done in ideal circumstances. As we were unable to interview the accounting staff, we could not validate the information given to us by senior management.

E. Organization Overview

The Pan American Health Organization (PAHO) is the regional arm of the World Health Organization (WHO). Its member states include all of the countries in North, Central and South America. Its status is that of an international organization and as such, has a Chief Delegate at the U.S. Department of State as well as at the United Nations. The United States, through the Agency for International Development, is PAHO's largest contributor.

PAHO is primarily a technical assistance organization. The LDC member states' Ministries of Health define their country's technical assistance requirements annually in a country plan of action. They then solicit PAHO's assistance (financial and technical) in meeting their needs. The Ministries of Health are voting members of the Organization. They deliberate on all budgetary and technical considerations, including priority determination, for the Organization. Consequently, PAHO operates within the framework of resolutions.

PAHO's headquarters in Washington, D.C. includes a staff of approximately 532. Its Finance Division, composed of Accounting and Disbursing offices, has a staff of 70. At the field level, the PAHO-WHO Representative Offices (PWR) vary in staffing levels according to the size of the technical assistance program in a given country.

All official financial records are maintained in Washington. The Organization's records are subject to review only by its designated external auditor, the Auditor General of Great Britain.

F. Project Overview

The Child Survival: Accelerated Immunization project is implemented by PAHO's Maternal/Child Health unit. Its objective is to improve child survival in the Americas through the prevention of vaccine-preventable diseases. The project components include the interruption of indigenous transmission of the wild poliovirus in the Americas by 1990, the expansion of coverage for other vaccines and the development of a sustainable infrastructure for the delivery of immunization and surveillance of immunizable diseases. The three principal indicators by which project progress is judged are the eradication of polio, the number of children vaccinated, and the reduction of diseases defined in the expanded program on immunization. Thus, the key factors to success are the project's surveillance system, social promotion and supervision of implementation.

The project duration is from August 14, 1986 to July 31, 1991, however, conditions precedent were not met until March, 1987 at which time project disbursements commenced. The project is funded by five organizations: AID, IDB, UNICEF, Rotary and PAHO. AID is the largest contributor, in the amount of US$ 20.6 million. AID's method of payment is through a letter of credit. This letter of credit includes several grants in addition to the one for this project.

PAHO/Washington staff directly involved in the project and funded by AID include one epidemiologist, a secretary and an administrator. PAHO is currently in the process of selecting the second epidemiologist who will also be funded by the AID project. The Project Manager is paid with PAHO funds. The selection process for personnel funded by AID includes prior consultation with the AID Project Officer.

PAHO/Washington works closely with its field offices in implementing the project. The Project Manager, based in Washington, is responsible for coordinating execution and ensuring that project activities are in line with original goals and objectives. He and his Washington staff also make field visits to support technical implementation. The field offices are responsible for assisting each Health Ministry to define its country's plan of action in regards to the project and for monitoring technical implementation. Technical assistance is provided both by PAHO and outside consultants. Consultants may be hired by PAHO/Washington or by a Ministry of Health directly. In the latter case, prior approval must be obtained through the PAHO field office from the Project Manager in Washington. Project disbursements cannot be made without prior obligations (approved by the Project Manager) which are recorded in PAHO headquarters. The Project Manager indicated that there is an administrator in each field office who monitors the financial management aspect of the project.

According to the Project Manager, his operational relationship with the AID/LAC Bureau consists of daily communication to provide updates and feedback on project developments in various countries. He also indicated that at the USAID Mission level, PAHO's epidemiologists are in constant contact with Mission people. In addition, he submits quarterly progress reports and consults with AID over the hiring of new project staff.

G. Conclusions and Recommendations

1. Reporting System

Our findings indicate that the financial reports submitted are generally completed according to instructions and are in compliance with grant requirements. In addition, the information

provided is sufficient to substantiate progress and appears to be based on a recordkeeping and financial reporting system that has adequate controls. We cannot pass judgement on the timeliness of the reports as the reporting only recently commenced. However, we do note that the initial reports were submitted a few months after their due date.

In the course of our review, we noted that many of AID's financial information requirements have been relayed informally to PAHO and are not included in the grant agreements or amendments. Moreover, these requirements are not currently being met. We therefore provide recommendations below to address these additional requirements as well as recommendations to improve the monitoring of the financial reports.

(a) The Child Survival project's budget line items should be included in PAHO's automated recordkeeping system.

Our findings indicate that unlike other AID projects implemented by PAHO, the Child Survival's budget line items do not equal PAHO's expense accounts. As a result, the financial report which accompanies the quarterly status report must be prepared manually by the Project Manager. To do so, he must manipulate the figures generated by PAHO's automated accounting system to fit into the budget line items. We therefore recommend that PAHO include the required accounts into their automated recordkeeping system.

Adding the budget line items to PAHO's Chart of Accounts in its automated system is essential for meeting the additional, complex reporting requirements of the LAC Bureau. In a February, 1988 meeting of project staff, both PAHO and AID appeared supportive of expanding the Organization's Chart of Accounts. A benefit to be derived in addition to enhancing the reporting capability while saving many manhours in report preparation is ensuring the accuracy of the financial figures reported since they will be directly from PAHO's automated system. In addition, this modification will facilitate a comparison of the reports prepared by PAHO's technical unit with its financial unit, which currently reports according to the Chart of Accounts and not project budget line item. Such comparison can serve as an important checkpoint not only for PAHO internally but for the AID Project Officer as well.

(b) The summary of expenditures and the SF 269 should break down disbursements by funding source.

Our findings indicate that the LAC Bureau has relayed informally to PAHO its requirement that the financial reporting differentiate between the LAC and CA regions, and among funding sources, which include Child Survival funds, Health funds, and

several Mission buy-ins. Staff at M/FM/PAFD indicated that a breakdown by funding source was also required for the SF 269 report. We therefore recommend that the LAC Bureau formalize the requirement, either through a grant amendment or a PIL (project implementation letter) that the SF 269 report and the summary of expenditures included in the quarterly status report present financial information by funding source per region. We do not believe this additional reporting requirement will be too cumbersome for PAHO, given that the budget line items have been incorporated into PAHO's automated recordkeeping system as described in the recommendation above.

In our review of the grant and amendments, we noted it was difficult to determine the funding sources and regions unless one is familiar with AID's coding system with regard to allotment/appropriation numbers. Therefore, to assist PAHO in meeting this requirement, the LAC Bureau should provide PAHO with a breakdown of the sources/regions of funds allocated to date. In addition, AID and PAHO project staff should formally prepare budgets by region and funding source, using the newly agreed upon budget line items. AID and PAHO project staff should also formally agree upon cost allocation for those expenditures, such as project staff salaries, which can not be directly attributed to a specific region/source. For example, other agencies implementing LAC Bureau projects have allocated such costs by ratio: 60% to LAC and 40% to CA. Finally, whenever new funds are allocated, the grant amendment must clearly specify to what fund/region they apply.

Once such changes are agreed upon formally, the AID Project Officer must assume responsibility for their implementation. In the case of the SF 269 report, which is submitted to AID/M/FM/PAFD and forwarded to the AID Project Officer for approval, the Project Officer must reject the report if funding sources are not differentiated. Otherwise, M/FM/PAFD will allocate the disbursements reported on a FIFO (first in, first out) basis according to funding provided in each grant amendment.

We recognize that in a recent (February, 1988) meeting with AID, PAHO expressed reservations with regard to reporting by funding source, as this is not stipulated in their contractual agreement with AID. This serves to emphasize the importance of having all reporting requirements formalized through grant amendments or PILs.

(c) <u>The summary of expenditures should be expanded to include additional information needed for management purposes.</u>

Currently, the summary of expenditures provides a breakdown by budget line item and indicates amounts obligated, disbursed and remaining balance. This is adequate for reviewing project

implementation and therefore substantiating project progress as claimed in the narrative portion of the report. However, it is difficult to assess progress in terms of original expectations and the realization of said expectations. We therefore recommend that the report be modified to include budgeted amounts per line item as well. This will enhance the AID Project Officer's ability to determine whether the project is moving according to plan.

To meet the reporting requirements with regard to differentiating between region and funding sources, we recommend that the report be revised to include a summary schedule and then supporting schedules showing costs by budget line item for LAC, CA and Mission Buy-ins. Refer to Exhibit 1 for a recommended formats of these schedules.

(d) Copies of the individual SF 272 and SF 269 reports submitted to AID/M/FM/PAFD should also go to the LAC Bureau.

The SF 272 and SF 269 and accompanying SF 1035 are currently submitted to the LAC Bureau although not required under the grant agreement. We recommend that the grant agreement be modified to formally require the submission of the individual SF 272 and the SF 269 and accompanying SF 1035 reports to the LAC Bureau. This will provide assurance that the AID Project Officer always receives the reports, enabling him/her to monitor the timeliness of the reports as well as to compare them against the report submitted by the technical unit.

In terms of the SF 272, we recommend that PAHO continue to prepare an individual one for the project although M/FM/PAFD only requires a consolidated one for all AID grants to PAHO. An individual SF 272 will enable the AID Project Officer to assess the cash management of the project since the SF 272 indicates total cash received, disbursements and remaining cash on hand. This is not an additional burden to PAHO, since they currently prepare individual SF 272 reports as the basis for preparing the consolidated one required by M/FM/PAFD.

(e) PAHO's technical and financial units should prepare their respective financial reports covering the same period.

Currently, the SF 269 and accompanying SF 1035 prepared by the financial unit do not reconcile with the summary of expenditures prepared by the technical unit since the reporting period is not the same. We recommend that both units use identical reporting period start and end dates in order to facilitate comparison of said reports. Using the same reporting period will provide a means for the PAHO Project Officer to reconcile his reports with those of the financial unit. In

EXHIBIT 1, page 1

CHILD SURVIVAL: ACCELERATED IMMUNIZATION PROJECT
SUMMARY OF EXPENDITURES
REPORTING PERIOD: MM/DD/YY - MM/DD/YY

	APPROPRIATIONS TO DATE (1)	CURRENT PERIOD DISBURSEMENTS	CURRENT PERIOD ACCRUED (2) EXPENDITURES	CUMULATIVE DISBURSEMENTS TO DATE	ACCRUED EXPENDITURES TO DATE	REMAINING BALANCE
LAC - CS						
LAC - H						
CA - CS						
CA - H						
USAID/COUNTRY - CS (3)						
USAID/COUNTRY - H						
GRAND TOTAL						

Notes:
1. Should equal approved budget
2. PAHO generally uses the term obligated to indicate accrued. We recommend they use accrued so as not to confuse the amount reported with AID obligations.
3. There should be a separate entry for each Mission buy-in.

LEGENDS:
LAC - Latin America and Caribbean regions
CA - Central America region
CS - Child Survival funds
H - Health funds

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CHILD SURVIVAL: ACCELERATED IMMUNIZATION PROJECT
DETAILED EXPENDITURES FOR LAC REGION (1)
REPORTING PERIOD: MM/DD/YY - MM/DD/YY

	APPROPRIATIONS TO DATE	CURRENT PERIOD DISBURSEMENTS	CURRENT PERIOD ACCRUED EXPENDITURES	CUMULATIVE DISBURSEMENTS TO DATE	ACCRUED EXPENDITURES TO DATE	REMAINING BALANCE
EXPENSES						
CHILD SURVIVAL:						
Personnel						
Meetings						
Laboratories						
Information						
Evaluation						
Promotion						
Supervision Surveillance						
Certification						
Cold Chain						
Operations Research						
SUBTOTAL (2)						
HEALTH:						
Personnel						
Meetings						
Laboratories						
Information						
Evaluation						
Promotion						
Supervision Surveillance						
Certification						
Cold Chain						
Operations Research						
SUBTOTAL (2)						
TOTAL LAC REGION						

Notes:
1. A similar schedule should be done for the CA region and for each Mission buy-in.
2. These totals go to the Summary of Expenditures, page 1.

addition, it will facilitate the review process of these reports by the AID Project Officer.

2. Internal Controls / Systems and Procedures

Based upon the information we obtained from senior PAHO management, internal controls and systems and procedures appear to be adequate from the standpoint of accountability. However, we were unable to confirm this first hand because of the limitations we faced, namely, that we could only ask general questions and could not speak with any accounting staff or examine any records or documents. As a result, we cannot provide any recommendations with regard to improving internal controls or recordkeeping.

H. Detailed Findings

1. Reporting System

Reports required under the grant include:

o Financial Reports
  - Federal Cash Transaction Report (SF 272)
  - Financial Status Report (SF 269)

o Project Status Report

In addition, the grantee is required to prepare and submit an annual workplan including a budget to AID for approval. As of the date of this review (November 1987), only two sets of the financial reports and one project status report have been prepared and submitted to AID and no revision of the project operational budget has been made. This is due to the fact that conditions precedent to disbursements were met only in March 3, 1987 although the estimated project start date was August 1986. Findings with regard to the reporting system are indicated below.

a. SF 272 and SF 269 reports

Standard AID regulations require that for grant recipients funded under a letter of credit, a Federal Cash Transaction report (SF 272) and Financial Status report (SF 269) are to be submitted quarterly, no later than 30 days and 15 days, respectively, at the end of each quarter to AID's Office of Financial Management, Program Accounting and Fund Division (M/FM/PAFD). This requirement is not spelled out in the grant agreement, however, as mentioned, it is a standard AID requirement. PAHO submits copies of these reports to the LAC Bureau although the grant agreement does not specify that this should be done. The reports for the period ending June 30, 1987 were submitted to the LAC Bureau on October 16, 1987 and were accompanied by a list of expenditures per PAHO's chart of

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accounts. Based on our interview (in the end of October) with M/FM/PAFD's Financial Analyst and Voucher Examiner dealing with PAHO, they had not received these reports but were not overly concerned since PAHO typically submits reports late and because of the lagtime in M/FM/PAFD between receipt of financial reports and their processing. In our follow-up interview at PAHO, we obtained copies of the reports ending September 30, 1987 which were sent to M/FM/PAFD on October 27th.

The instructions for the preparation of the SF 269 indicate that the financial reporting must differentiate between funding sources. In the case of this project, PAHO should be reporting Child Survival (CS) funds and Health (H) funds separately on this form for the LAC and CA regions. Our review of the two SF 269 reports submitted indicate that they have not provided this information. Mission buy-ins must also be reported separately; however, for these reporting periods, there were no disbursements from these funds. M/FM/PAFD staff indicated that it is the Project Officer's responsibility to monitor the reporting and to flag any deviations from required procedures for completion of the SF 269 reports. This should be done when M/FM/PAFD forwards copies of the reports to the LAC Bureau Project Officer for the required Project Officer approval. In the case where multiple funding exists but is not indicated in the report, M/FM/PAFD liquidates the obligations on a FIFO (First in, First out) basis and not by funding source.

The SF 269 is accompanied by an SF 1035 which provides a breakdown of project disbursements by PAHO expense category. In our review of the SF 1035 detail for the periods ending June 30, 1987 and September 30, 1987, we could not trace the approved budget reported on the SF 1035 to the grant or any of the amendments. According to the Chief of Accounts, this amount, U.S. $4,258,451, represents AID appropriations up to a specific date, although he could not define the actual date. However, we are unable to validate this figure despite our summarization of appropriation amounts per grant on an incremental basis.

Concerning the SF 272, the grant agreement stipulates that it must be completed along with the SF 269 for a given grant. However, M/FM/PAFD has changed its procedures and only requires a consolidated SF 272 which shows period cash transactions for all AID grants received under a letter of credit by an organization. M/FM/PAFD indicated that they have informed PAHO verbally that only a consolidated SF 272 report is required from PAHO since the organization has several AID grants. Nevertheless, PAHO continues to prepare separate SF 272 reports for each grant and use them as a basis for preparing the consolidated SF 272. Thus, in terms of M/FM/PAFD's information requirements, a separate SF 272 per project is not necessary nor used. However, a separate SF 272 is a useful management tool for the AID Project Officer from a cash management perspective since it indicates the

amount of cash received for the project, amount disbursed, and ending cash balance.

We performed some cross-checking of project disbursements reported on the SF 269, the individual SF 272 and the consolidated SF 272 reports for the quarter ending June 30, 1987 and found no discrepancies. However, we did note that the disbursement amount as reported on these reports did not tally with that reported in the quarterly project status report. This discrepancy is discussed in subsection b below.

As stated above, only two set of reports have been prepared and submitted to AID to date. (October, 1987). It is therefore difficult to make generalizations on timeliness of reporting and problems encountered. However, part of our engagement includes the review of another AID project which has been implemented by PAHO since 1985. Refer to Section VIII.F.1 for additional discussion on PAHO reporting, particularly in regards to the SF 269 and SF 272 reports.

b. Project Status Report

We reviewed the project status report and accompanying summary of expenditures for the quarter ending June 30, 1987 submitted to LAC/DR/HN. The narrative portion of the progress report is informative in terms of providing the AID Project Officer with information as to the status and accomplishments of the project as they relate to the plan of action. The report also describes proposed activities for the subsequent periods. The report has not been finalized, however, because of some concern over the format. In terms of the non-financial portion, AID would like to see some visual aids (e.g. graphs, charts) which indicate progress toward planned targets as well as information with regard to progress on a country by country basis. In terms of the financial summary of expenditures, AID has several information requirements which are not being met to date. The LAC Project Officer and PAHO Project Manager are still in the process of deliberation as to defining and meeting these requirements. A series of report drafts have been prepared by PAHO. We have included as Exhibit 1 a recommended format for the summary of expenditures.

The LAC Bureau's principal financial reporting requirements are that PAHO report by budget line item, differentiating between the LAC and CA regions' activities, and among Child Survival (CS), Health (H) and Mission (buy-ins) funds. In addition, AID would like to see budgeted versus actual expenditures, accrued expenditures, as well as cash received, disbursed and on hand. The AID Project Officer mentioned that she would also welcome financial information per country. These information requirements are not indicated in the grant agreement or amendments but have been relayed to PAHO verbally.

In terms of funding sources and regions, the information included in the grant agreements and amendments does not adequately differentiate among them. One needs to be familiar with AID's coding system with regard to allotment and appropriation numbers to know what regions/funding sources are covered by the amendments. In a recent meeting between AID and PAHO project staff, problems regarding information requirements and reporting were discussed. In addition, a memo discussing some of AID's information requirements was distributed to PAHO staff by the AID Project Officer.

Currently, the summary of expenditures submitted by PAHO shows budget line items, amounts obligated by PAHO per budget line item, actual disbursements and undisbursed obligations. It does not distinguish between regions or funding sources. Nor does it present information in regards to budgeted amounts and cash received, disbursed and on hand. This report is created manually by the Project Manager using the project expenditure record as source information. (The expenditure record is defined in detail in Part H.4.a Recordkeeping.) The reason this report is created manually is that the budget line items used in the project, determined in the original project proposal and included in the grant agreement and amendments, are not the same as PAHO's chart of accounts. Thus the amounts per account listed in PAHO's project expenditure record of the project have to be manipulated to fit the expense categories of the project as stipulated in the budget.

As PAHO disburses funds per allotment (expense accounts), our findings indicate that it would not be difficult to have separate PAHO expense accounts for each region and funding source. However, because of the problem defined above, that budget line items are not the same as PAHO's expense accounts, adding the additional reporting requirement of separating regions and funding sources per budget line item would require extensive labor hours to complete if done manually. Moreover, only with major system enhancements could PAHO's chart of accounts in their automating accounting system be modified to reflect the budget line items of the project and be further broken down by funding source and by region.

As indicated above, the summary of expenditures accompanying the quarterly progress report is prepared by the Project Manager. The two reports (SF 269 and SF 272) submitted to M/FM/PAFD are prepared by an accounting technician. All are based on the expenditure record per project. According to the Chief of Accounts, the reports prepared by the Accounting Technician are reviewed by the Grants Officer, and if approved, are submitted to the Chief of Accounts for certification. He then submits them to the technical unit for clearance of the Project Manager and his supervisor. In Exhibit 2 we present a flowchart of expenditure

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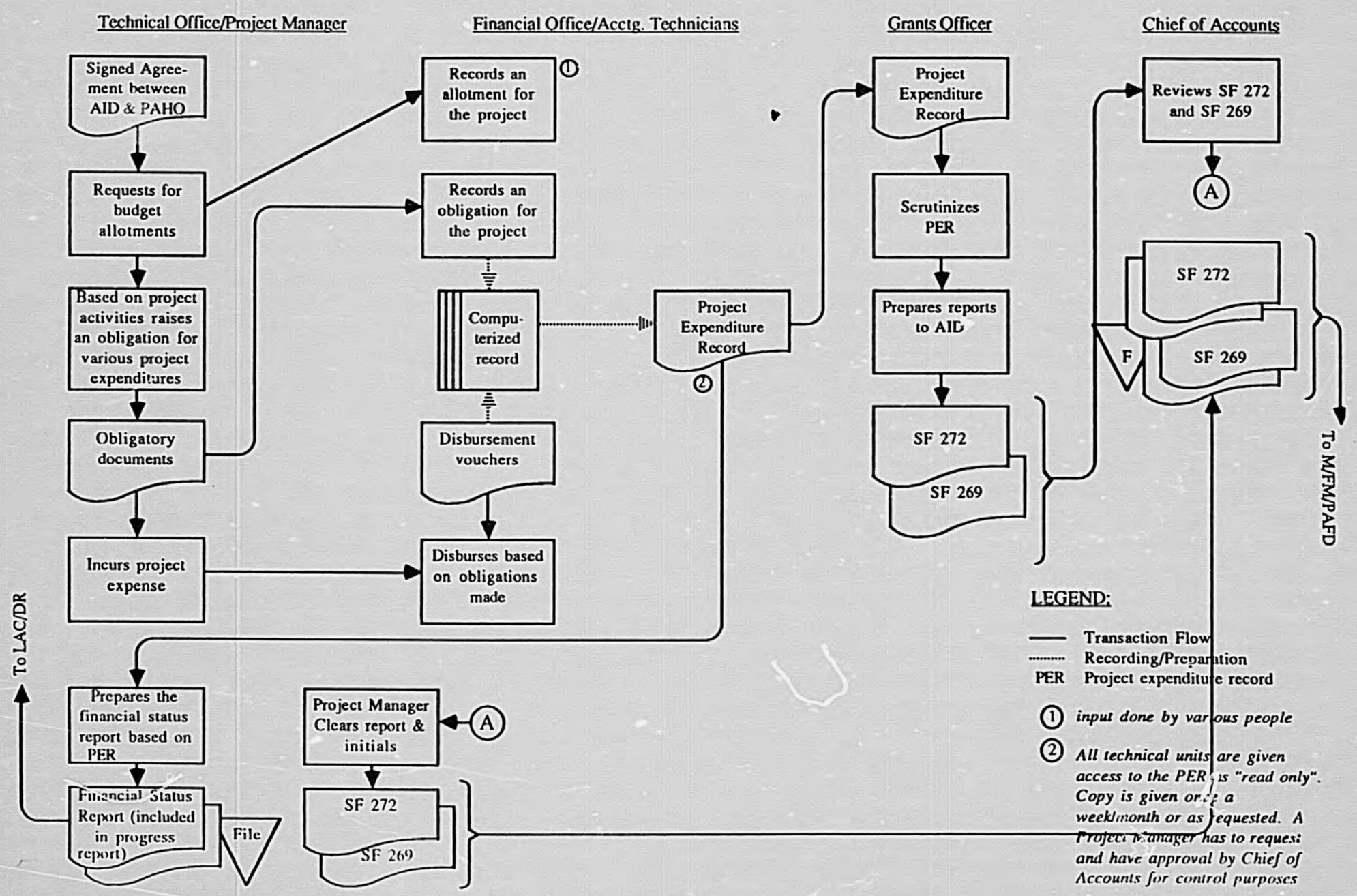
Exhibit 2

PAHO

FLOWCHART ON DISBURSING, RECORDKEEPING AND REPORTING



reporting as described by management interviewed.

In reviewing the SF 269 and accompanying detail (SF 1035) prepared and submitted by the Finance Office and the financial summary of expenditures prepared and submitted by the technical unit for the period ending June 30, 1987, we found that they were not comparable by line item since the Finance Office reports according to PAHO's expense accounts whereas the Project Manager reports according to budget line item. Nevertheless, the total figures for disbursements, obligations and unliquidated obligations should be equal since these reports cover expenditures through June 30, 1987.

We observed that these totals do not reconcile. According to the PAHO Project Manager, these figures are not equal since the SF 269/1035 covers project disbursements from project inception through June 30, 1987 whereas the summary of expenditures prepared by the Project Manager covers project disbursements only for the quarter April 1, 1987 through June 30, 1987. However, as previously indicated, only one quarterly project status report has been submitted by the Project Manager since project activities/disbursements did not begin until March 1987. Therefore, if the disbursements only cover expenditures beginning in April 1987, the Project Manager needs to submit another summary of expenditures for those disbursements made in March 1987.

At present, PAHO is planning to standardize reporting for each donor/grantee. Their original plan was to have a standard format for all the donors/grantees but realized this was impractical since each has its own information requirements.

2. Cash Management

For control purposes, disbursements for the project are centralized at PAHO headquarters in Washington, D.C. Disbursements are made based on obligated amounts for specific expenditures. We were told that no disbursements are made without prior obligations recorded. This is standard procedure for disbursements at the PAHO field level as well.

Budgets to determine cash needs for operating expenses are prepared by PAHO bi-annually. For technical assistance, budgets are prepared annually based on annual action plans submitted by each participating country. These plans include the activities to be undertaken, such as equipment to be purchased and workshops to be held, and are used to assess the technical assistance cash needs of the Organization as well as the appropriateness of expenditures claimed by each country.

In terms of the management of AID funds, we noted that the consolidated and separate SF 272 Federal Cash Transactions

reports submitted to AID show a consistent negative balance for cash on hand at the end of the reporting period. This indicates that PAHO is advancing money to finance AID projects, which from AID's perspective, is acceptable. However, the Chief of Accounts indicated in our interview that PAHO should not be using its own operating funds to provide advance financing to technical assistance projects.

3. Internal Controls

Based on our interview with the Chief of Accounts and Grants Officer, internal controls appear to be in place. These controls are indicated by the following:

a. Segregation of Duties

Project execution, recordkeeping, fund disbursement and reporting are handled by different offices within PAHO. The technical units are involved in the execution of projects. Fund disbursement is handled by the Disbursing Office while recording of transactions is under the responsibility of the Finance Office.

b. Disbursement of Funds

Disbursements are made only if obligations have been previously approved by an allottee (Project Manager or Officer authorized to incur expenses) and funds availability certified by the Accounts section.

c. Internal Audit

An internal audit group at PAHO is responsible for reviewing disbursements. However, this is done on a test-audit and post-audit basis. We reviewed the Financial Report of the Director and Report of the External Auditor for the period 1 January 1984 - 31 December 1985, the most recent one available for review. The External Auditor's examination of PAHO's automated accounting system revealed a number of control and procedural weaknesses which have been acknowledged by the Organization. The report indicated that steps were being taken to enhance controls and improve procedures.

4. Systems and Procedures

a. Recordkeeping

PAHO's recordkeeping is automated. An expenditure record is maintained for each project. If a project is funded by more than one donor, a separate record is maintained for each funding source. In the case of the Child Survival: Accelerated Immunization Project, there are separate expenditure records for

AID, IDB, UNICEF, Rotary and PAHO project funds. No other records are maintained for project related transactions.

Each project's expenditure record includes the project title, project code, nature of the expenses incurred, amounts obligated, allotted, disbursed and unobligated balance. The recording of transactions is based on such documents as travel authorizations/purchase orders in the case of obligations and invoices/receipts in the case of disbursements. Obligating documents are signed indicating approval by the allottee, who is usually the Project Manager or his assistance. Disbursement documents are approved by two persons who are also the check signatories.

The project expenditure record is the basis for the preparation of all of the financial reports submitted to AID's financial and technical offices. From our interviews, it appears that the controls regarding the information entered in this record are adequate. The recording of this project's transactions is handled by one accounting technician who is also responsible for other projects.

The present recordkeeping system does not accommodate the current reporting requirement of AID that project expenses be reported by budget line item and further broken down by funding source and region. As mentioned in the discussion of financial reporting, only with major system enhancements can the current financial information requirements of AID be included in PAHO's recordkeeping system.

PAHO-WHO Representative Offices (PWR) in the field also maintain records in cases where the PWR is an allottee, eg. authorized to approve obligations. These records are informal and maintained using the PC. However, they are reconciled against PAHO/Washington official records.

b. Disbursement Procedures

As previously indicated, our information on project disbursement procedures is based solely on interviews with senior management. They appear adequate from the standpoint of accountability and are summarized below.

Upon appropriations from AID, PAHO creates allotments or expense accounts for a particular project. For the AID project under review, the Project Manager advised the Chief of Budget on how to breakdown the budget line items to fit into PAHO's expense accounts. Upon creation of the allotments, one or more allottees are designated. The allottee is the only person authorized to request funds under a particular allotment. In the case of the AID project, the allottees include the Project Manager and his assistant.

When an allottee wants to incur a project expenditure, he/she must complete and sign an obligating document such as a purchase order and indicate the allotment number. The allottee must complete this document for both Washington and country level project expenditures. This obligating document is forwarded to the Finance Division, which certifies funds availability and enters an obligation in the project expenditure record. Upon receipt of the supplier's invoice, the project expenditure record will be checked to ensure that a prior obligation has been recorded before payment is processed. In the case where an obligation has not been recorded, payment will not be processed until follow-up with the designated allottee.

Disbursements at the PAHO country level are made through imprest accounts established for operating and project expenses. Each country office submits a monthly cash book of this account with supporting receipts which are audited and journalized by the Washington staff. For project expenses reported, the accounting staff reviews the project expenditure record to ensure that prior obligations have been made. If not, the expenses are charged against the country's operating expense fund until the matter is cleared up.

c. Policies and Procedures

According to the Chief of Accounts, PAHO has a set of documents and manuals defining standard operating procedures and internal controls. The Price Waterhouse team was only able to review Official Document No 188: Basic Documents of the Pan American Health Organization, 14th Edition. This booklet presents PAHO's sanitary code, constitution, various agreements and rules and procedures affecting sanitary conferences, directing council, executive committee and general financial management, including control of expenditures, management of funds, procurement, external auditing and internal controls. No other manual was made available for review.

d. Subcontracting

According to the Chief of Accounts and Legal Counsel, PAHO does limited subcontracting. With regards to this project, there is no subcontracting. We were unable to obtain any information with regard to subcontracting procedures used by PAHO.

V. TECHNOLOGY DEVELOPMENT AND TRANSFER IN HEALTH: HEALTH CARE FINANCING COMPONENT

Implementing Organization:	Research Foundation of the State University of New York at Stony Brook (RF/SUNY)
Contract No.:	LAC-0632-C-00-5137-00
AID Project Officer:	Kate Jones-Patron
SUNY Project Director:	Deiter K. Zschock
Project Duration:	September 27, 1985 to December 30, 1989
Amount of Funding:	$2,025,250
Method of Payment:	Letter of Credit
Persons Interviewed:	
AID:	Kate Jones-Patron
SUNY/Stony Brook:	Paullette Chase, Assistant to Project Manager Margie Bunn, Director of Accounts Payable (Research Foundation) Irene Ward, Accounts Payable Supervisor Barbara Harris, Grants Officer
SUNY/Albany:	Ronald Plaine, Assistant Director, Financial Services Robyn Steve, Staff Assistant, Contracts and Grants John Donlon, Staff Assistant, Contacts and Grants
Report Format:	A. Introduction B. Scope and Objectives C. Methodology D. Limitations E. Organization Overview F. Project Overview G. Conclusions and Recommendations H. Detailed Findings 1. Reporting System 2. Cash Management 3. Internal Controls 4. Systems and Procedures 5. Filing

A. Introduction

Price Waterhouse was engaged by the Latin America and Caribbean (LAC) Bureau of the U.S. Agency for International Development (AID) to assess the financial reporting systems of several organizations implementing LAC Bureau funded projects. One of the projects selected for review was the Technology Development and Transfer in Health project. This is essentially an umbrella project which has three distinct components, each of which is implemented by a different agency. These components include Health Care Financing, Clinical Training and Health Management Training. The first component, Health Care Financing, is implemented by the Research Foundation of the State Universities of New York (RF/SUNY) in Stony Brook.

An integral part of our review included a visit to RF/SUNY in Stony Brook in November, 1987. We would like to thank the RF/SUNY staff for their assistance and cooperation in conducting this review, particularly Ms. Paullette Chase for arranging all of the logistics.

B. Scope and Objectives

This review covers the financial information and reporting system of RF/SUNY with the objectives of ascertaining a) compliance with the contract requirements for reporting and b) the adequacy of information provided in terms of management oversight. The review is also aimed at providing assurance to the AID Project Officer as to the quality and timeliness of financial information supplied by RF/SUNY as well as to the adequacy of RF/SUNY's overall internal controls and systems and procedures in this regard. Based on our findings, recommendations will be developed to enhance the information and reporting system by implementing organization as well as to improve the LAC Bureau's contract monitoring system.

Our review does not constitute an audit of RF/SUNY or the project and therefore an opinion will not be rendered. In addition, this review does not constitute a technical evaluation of the project.

C. Methodology

In order for us to make a meaningful assessment of the financial reporting system, consideration was given to areas directly and indirectly related to the generation of financial information. We designed a comprehensive program that included an appraisal of the organization's internal controls (segregation of duties and approval of transactions) and systems and procedures (recordkeeping, disbursements, subcontracting, cash management, and filing) in order to put our review of the financial reports

into the proper framework. Also included in the program was a review of project history and the nature of the implementing organization.

In conducting our program, various methodologies for fact finding were employed. These included interviewing of staff at RF/SUNY at Stony Brook both directly and indirectly involved in the project, inspection of the project accounting records, and tracing of several transactions as to documentation requirements for payment. In addition, we sampled various project documents such as subcontracts and correspondence relating to the hiring of consultants in order to review the provisions contained therein as well as to validate the information provided by those personnel interviewed. Finally, we interviewed via telephone the Assistant Director of Financial Services and the Staff Assistant of RF/SUNY at Albany who are responsible for preparing the financial reports.

In terms of financial reporting, we reviewed and analyzed the financial reports submitted to M/FM/PAFD and the project status reports and accompanying financial information provided to the LAC Bureau to determine compliance with the requirements of the contract as well as the adequacy of information provided to AID.

D. Limitations

A limitation we faced is that we were unable to examine in person the records maintained in Albany, the location of RF/SUNY's head financial office and where the SF 272 reports and SF 1034 vouchers submitted to M/FM/PAFD are prepared. However, we do not believe that this affects the quality of the information we obtained since all of the project's expenditures, records and processing of payments occur in Stony Brook and as a result, it is the controls and accountability at that level which directly impact the project. To minimize this limitation, we interviewed the Assistant Director of Financial Services and the Staff Assistant responsible for preparing these reports via telephone to confirm information obtained at Stony Brook.

E. Organization Overview

The Research Foundation of the State Universities of New York (RF/SUNY) is a non-profit, grantee institution established by the Federal and State governments. RF/SUNY is responsible for administering all research grants awarded to the SUNY faculty. RF/SUNY's central office is in Albany and has a staff of over 200. It has offices on every campus, including Stony Brook where the project under review is implemented.

RF/SUNY administers grants for a wide variety of research

activities corresponding with the academic disciplines of its faculty. Research grants are generally requested by and awarded to a particular faculty member. RF/SUNY donors in addition to AID include the Rockefeller Foundation, the March of Dimes, the National Institute of Health and its agencies, the U.S. Department of Energy and the U.S. Department of Defense. AID funds represent a small fraction of total grants.

F. Project Overview

The objectives of the project are to:

o assist AID/LAC and Missions to design, implement and evaluate health projects which address key financing constraints in the health sector

o develop operations research methodologies and models in the area of health services financing

o assist AID/LAC and Missions to formulate health policy dialogue agendas

o assist AID/LAC, Missions and LAC countries to ascertain the economic and financial implications of investments in the health sector

o assist AID/LAC and Missions to design and implement private sector health programs

To realize these objectives, RF/SUNY has been tasked with designing and implementing 12 country studies which may take the form of cost studies, demand studies, alternative financing studies and other studies as required. To date, seven studies are in process or have been completed. The typical country study cycle originates with a request from a USAID Mission. An exploratory visit is conducted and a country study design and budget prepared. Once these are approved by both AID/W and the Mission, the study is conducted. The draft report produced is reviewed by AID/W and the Mission before being finalized.

Other components of the project include regional workshops on alternative financing of health delivery systems and the establishment of a database of health care financing literature.

The project is implemented by RF/SUNY at Stony Brook and its two subcontractors. In addition, RF/SUNY retains the services of outside consultants. RF/SUNY appears to coordinate closely with its subcontractors and consultants during project implementation. In addition, there is frequent interaction with AID/W and at the Mission level.

There has been no project audit conducted to date. A project evaluation will be conducted between January and February, 1988. At AID's request, RF/SUNY submitted a proposed scope of work for the evaluation.

G. Conclusions and Recommendations

1. Reporting

Our findings indicate that the financial information reported appears to be based on a recordkeeping and financial reporting system with adequate accountability. In addition, reporting currently appears to be in compliance with contract provisions. However, we observed that the financial information included in the quarterly report submitted to AID, which is based on a format provided by LAC/DR/HN, is not adequate for project monitoring purposes. In addition, financial information is not provided by funding source. We offer the following recommendations to improve this report.

(a) Financial information provided in the quarterly report should be expanded.

Currently, the financial information presented in the report submitted to the LAC Bureau is limited to four figures representing total amount authorized, obligated, committed and accrued. This is insufficient for sound financial management of the project. We recommend that this financial summary be replaced with three schedules.

The first schedule should include by budget line item the amount budgeted for the current year, reporting period disbursements and encumbered (obligated) expenditures, total disbursements and encumbered expenditures and remaining balance. This information should be presented by funding source. (see recommendation (b) below). Presenting information by budget line item will enable the AID Project Officer to monitor project expenditures to ensure that they are within the approved amounts as well as to determine whether the project is progressing as planned. In addition, it will enable the Project Officer to compare and reconcile this report, which is prepared in Stony Brook, with the SF 1034 vouchers, which are prepared in Albany.

Since a significant component of the project is country studies, a country study progress chart should be included. Such a schedule should present for each study the name of the country, the type of study, its current status, the budgeted amount, current period and total disbursements, current period and total encumbered expenditures, and remaining balance.

A final schedule should be included depicting the cash management of the project. The information presented should include total cash received, total disbursements and remaining cash on hand for the reporting period. Such information may be obtained from the project's monthly account expenditure summary record.

(b) The AID Project Officer should assist RF/SUNY in reporting by funding source.

In October, 1986 the LAC Bureau required that financial information be reported by funding source. However, funding sources and amounts obligated under each were not indicated in the contract or amendments until August, 1987. RF/SUNY is still not reporting by funding source as of the date of this review as the project team is unsure of how to address this information requirement or where to obtain information regarding funding sources provided to date.

To facilitate meeting this information requirement, we recommend that the AID Project Officer provide guidance to RF/SUNY in this regard. In addition, the AID Project Officer and the RF/SUNY project team should determine how those costs not directly attributable to a funding source will be allocated. These include salaries, overhead and other administrative expenses. One option is to redesign the budgets to reflect the different funding sources. This would entail setting up new project account codes in RF/SUNY's recordkeeping system. Another option is to allocate disbursements from the current budget line items on a predetermined percentage basis, for example 60% allocated to LAC funds and 40% allocated to CA funds.

According to staff interviewed at M/FM/PAFD, funding sources should also be indicated on the SF 1034 submitted to M/FM/PAFD, else the disbursements reported will be liquidated on a FIFO (First in, First out) basis according to obligations made. We recommend that the AID Project Officer clarify this requirement with M/FM/PAFD and assume responsibility for its implementation.

(c) Reporting requirements for the Dominican Republic Household Survey should be clarified.

Modification 3 to the contract requires separate tracking and reporting of funds earmarked for the Dominican Republic Household Survey. The modification indicates that separate reporting is required by the D.R. Mission, but does not indicate whether this financial information must also be provided to LAC and M/FM/PAFD. We recommend that this requirement be clarified by the AID Project Officer. Currently, the additional funding provided for this survey is not tracked separately by RF/SUNY's

automated system but is included in the overall budget. If this reporting requirement is limited to the DR Mission and the LAC Bureau, then it may be met through the recommended country study progress chart discussed above. If this information must also be included on the M/FM/PAFD vouchers (to liquidate the advance against the proper obligation), then action must be taken to differentiate these funds in RF/SUNY's accounting system.

(d) Copies of the reports submitted to M/FM/PAFD should also be provided to the AID Project Officer.

Currently, copies of the SF 272 and SF 1034 voucher are not submitted by the RF/SUNY financial office in Albany to the LAC Bureau. We recommend that copies of these reports be forwarded by RF/SUNY in Albany to the AID Project Officer. This will enable the AID Project Officer to ensure that all reporting requirements are being met as well as to monitor the timeliness of the submissions.

2. Cash Management

From our limited review, we have observed that the cash management of the project appears adequate.

3. Internal Controls

Our findings indicate that RF/SUNY and the project appear to have adequate internal controls with regard to segregation of duties, processing of disbursements and approval of expenses.

4. Systems and Procedures

We reviewed the recordkeeping system for the project and found it to be sophisticated and able to meet the information requirements of AID. We also reviewed the project subcontracting procedures and found them to be adequate. We offer the following recommendations with regard to short-term consulting, written policies and filing.

(a) Formal agreements should be made with consultants regardless of the fees to be paid.

Currently, formal agreements are entered into only when the total price is greater than $5,000. We recommend that formal agreements between the consultant and RF/SUNY be made whenever consultant services are retained for the project. Such an agreement serves to protect AID funds and provide legal recourse should any problems arise. The agreement should include the expected output, the fees and expenses to be paid and the terms

of payment.

(b) Policies with regard to authority limits should be documented.

As indicated, it appears that RF/SUNY has adequate procedures and controls regarding approval of expenses and processing of disbursements. We recommend that these procedures be documented to serve as a reference to all Foundation employees.

(c) The accounts payable documents should be fastened.

The filing system in the accounts payable group appears well organized. However, documents are not fastened together. We recommend that documents be fastened in each file to avoid getting lost or mixed with other documents. Fastening documents in a logical order also facilitates tracing.

H. Detailed Findings

1. Reporting System

Under this contract, AID requires the following reports:

- o Financial Reports
  - Public Voucher for Purchases and Services other than Personal (SF 1034)
  - Status of Funding Report
- o Project Progress Report

In addition, the contractor is required to prepare and submit an annual work plan to AID for approval and a semi-annual synthesis of research and project activities (designs, methodology and findings). In a letter to the project Director from LAC/DR/HN dated October 15th, 1986, AID indicated that the progress report had to be submitted quarterly rather than semi-annually as indicated in the contract. The letter also indicated that the financial information presented in the report must differentiate between LAC (Latin America and Caribbean) and CA (Central America) funds. Finally, Modification 3 to the contract indicates that expenditures of funds earmarked for the Dominican Republic Household Survey must be tracked and reported separately to USAID/Dominican Republic.

Below is an assessment of these reports from the standpoint of compliance with contract provisions and additional LAC Bureau requirements and adequacy of information for management purposes.

Refer to Exhibit 1 for a flowchart on recordkeeping and financial reporting.

a. Financial Reports

According to AID regulations, letter of credit requirements for direct contracts stipulate that an SF 1034 (Public Voucher) must be submitted monthly on a per project basis within 30 days from the close of the accounting month in which the expenses were incurred. The SF 1034 must be accompanied by a Status of Funding Report, which shows the contractor's letter of credit position and cash position. The contract requires that these vouchers/reports be submitted to AID's Office of Financial Management, Program Accounting and Finance Division (M/FM/PAFD). RF/SUNY is not required to submit copies to LAC/DR/HN.

Currently, RF/SUNY is submitting the SF 1034 as required and the SF 272 (Federal Cash Transactions Report) in place of the Status of Funding Report to M/FM/PAFD. The SF 272 is normally required of organizations which have grants/cooperative agreements as opposed to contracts funded under a letter of credit. It provides consolidated information on all grants received from AID, showing the recipient's cash position but not its letter of credit position as does the Status of Funding Report. It must be submitted quarterly, no later than 15 days after the end of the reporting period. It should be accompanied by the SF 272a which indicates disbursements per grant/cooperative agreement with the Agency.

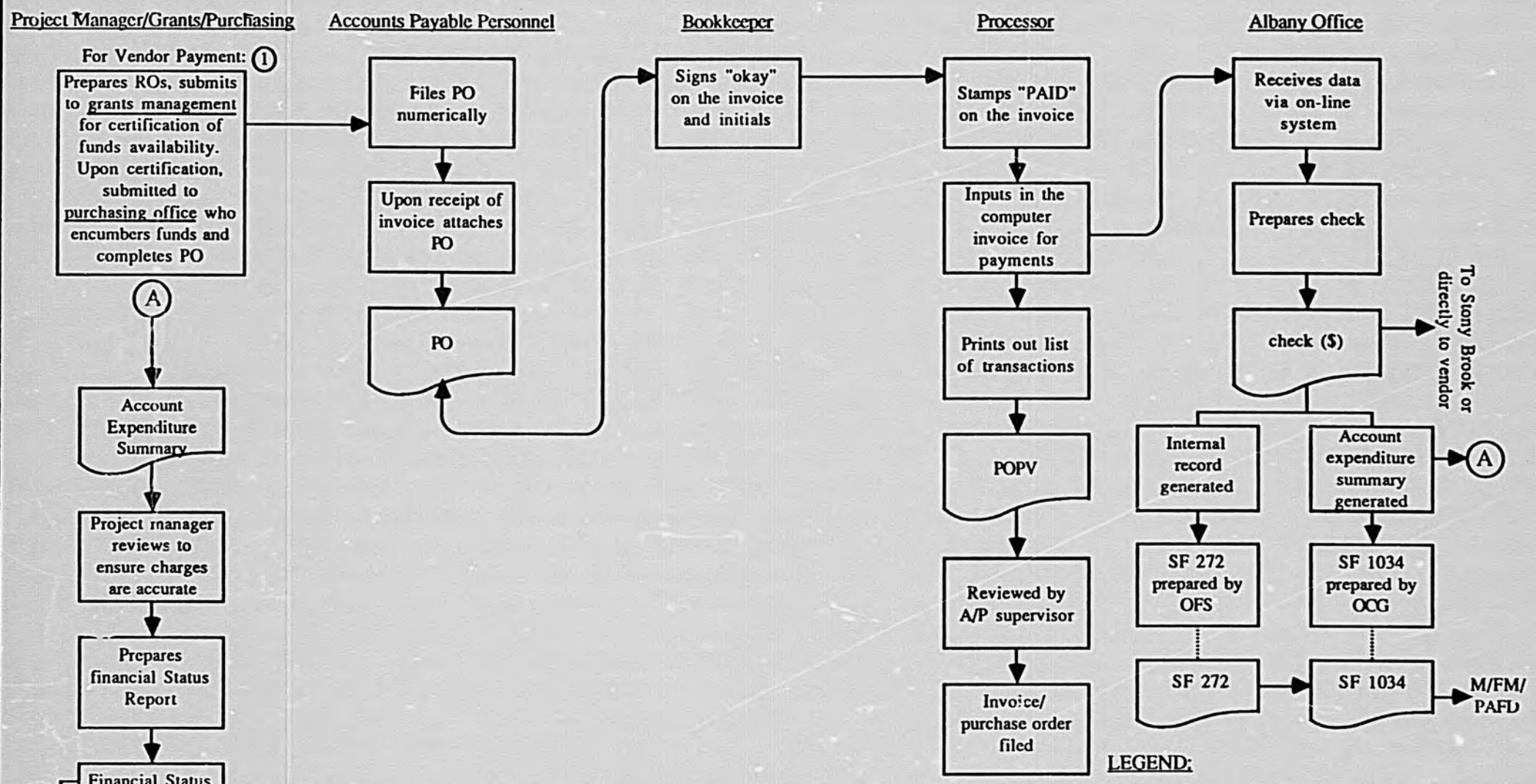
The RF/SUNY Office of Financial Services in RF/SUNY is responsible for preparing/submitting the SF 272 to M/FM/PAFD. Copies are not provided to the Project Director in Stony Brook. In our telephone interview with the Assistant Director, he indicated that the SF 272 and SF 272a are submitted in place of the required Status of Funding Report because he had been submitting the former for another AID grant and was unaware that the latter was required. From a project management perspective, the SF 272 is not as informative as it provides only consolidated financial information for all AID funded activities, thereby not highlighting the cash management of the particular project. In addition, the SF 272 does not show the status of the letter of credit in terms of the obligated amount, withdrawals and remaining letter of credit balance.

We discussed this requirement with the head of the Letter of Credit division at M/FM/PAFD who indicated that the SF 272 submitted by RF/SUNY was sufficient for M/FM/PAFD purposes. We would therefore encourage M/FM/PAFD to revise their requirements regarding letter of credit reporting to reflect current practice.

Exhibit 1

SUNY

FLOWCHART ON DISBURSEMENT, RECORDKEEPING AND REPORTING



1 *Flow of transaction is the same for other types of encumbered (obligated) expenses. For non-encumbered expenses, the purchasing office is not involved. Note that for travel advances, grants encumbers funds. In addition, all travel vouchers are processed by the travel office and reviewed by the AP Supervisor.*

LEGEND:

——	Information/Transaction Flow
·····	Recording/Preparation
PO	Purchase Order
POPV	Purchase Order Preparation Voucher
RO	Requisition Order
OFS	Office of Financial Services
OCG	Office of Contracts and Grants

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We reviewed all of the SF 272 reports submitted quarterly and noted that they have been submitted regularly since the start of the project, two of them on time and the remaining only a few days late. Each is accompanied by a SF 272a which shows the disbursements for the two AID projects currently implemented by RF/SUNY, one of which is the one under review. All of the reports show a negative ending cash balance, indicating that RF/SUNY is advancing its own funds to implement AID projects. We also noted that the reports for the quarters ending December 31, 1986 and March 31, 1987 were certified only by an accountant as opposed to a Financial Officer. In addition, the two reports for the quarters ending September 30, 1986 and September 30, 1987 had no certification indicated at all.

The SF 272 is based on an internal record per contract maintained by the Office of Financial Services. This record tracks cash received and project disbursements per contract and is generated by RF/SUNY's automated accounting system. It is used as the basis for requesting letter of credit withdrawals.

The SF 1034 vouchers are prepared in the Albany Office of Contracts and Grants, which is organizationally distinct from the Office of Financial Services. Copies are not provided to the Project Director in Stony Brook. According to the Staff Assistant responsible for their preparation, vouchers have been submitted on a monthly basis through October 30, 1987.

We reviewed RF/SUNY's file at M/FM/PAFD and noted that only three vouchers were included, one covering the period September 30, 1985 through April 30, 1987 (submitted June 25, 1987), the second covering the month of May, 1987 (submitted July 7, 1987) and the last covering expenditures for the month of June (submitted July 29, 1987). However, because of the lagtime in voucher processing at M/FM/PAFD, the July, August, September and October vouchers may not have yet been processed and filed. In our conversation with the Staff Assistant, she indicated that the first voucher covering 19 months was submitted in June, 1987 once RF/SUNY became aware of this requirement. Until then, RF/SUNY had been submitting the SF 269 Financial Status Report which is required of organizations which have grants/cooperative agreements with AID as opposed to contracts.

All of the SF 1034 reports submitted are accompanied by a detailed itemization of expenses according to budget line item. The itemization also includes the calculation of the indirect costs, using the agreed upon indirect rates as stipulated in the contract. All of the reports are certified by a RF/SUNY Staff Assistant as opposed to a Financial Officer, which is standard operating procedure according to the Staff Assistant interviewed. Each report on file at M/FM/PAFD has the required LAC/DR/HN Project Officer approval.

We noted that the itemization does not include a breakdown by funding source. According to the Financial Analyst at M/FM/PAFD, such information should also be included in the vouchers submitted to M/FM/PAFD. However, the analyst indicated that it is the AID Project Officer's responsibility to relay this requirement to the contractor and monitor its implementation. In the case where funding sources are not differentiated, M/FM/PAFD will liquidate the expenditures on a FIFO (First In, First Out) basis according to obligations made. Increased communication and coordination between LAC/DR/HN and M/FM/PAFD would facilitate identifying the latter's financial information needs and assuring that said information is relayed to all appropriate persons in the contracting organization.

The SF 1034 and supporting detail are based on the Account Expenditure Summary (AES) for the project. This is a detailed record included in RF/SUNY's automated general ledger system, which has online capabilities with all of the RF/SUNY campuses. All of the information included in the AES with the exception of original budgeted amounts is input at Stony Brook. (Refer to Section 4.a - Recordkeeping below for a complete description of this record.)

We traced the expenditures included in the SF 1034 for June 30, 1987 against the AES for the same month and noted that they were equal in all items except for the indirect costs. Likewise, we compared total expenditures from September 30, 1985 to June 30, 1987 as indicated in the AES with the SF 1034 reports and noted that they were equal except for the indirect costs. According to the Staff Assistant in Albany, the indirect cost reported on the AES is an estimate based on a composite rate and is modified once the actual indirect cost has been calculated.

We also compared the total amount of project expenditures through June 30, 1987 as indicated in the SF 1034 submissions and the SF 272 submissions and found that the latter showed disbursements to be less by $5.97.

b. Progress Report

The progress report, to be submitted quarterly to LAC/DR/HN, should cover financial management and operations, implementation status, discussion of implementation problems and projected actions. As mentioned above, the LAC Bureau informed the RF/SUNY Project Director (October, 1986) that the financial information reported had to differentiate between LAC and CA funds. RF/SUNY was not able to comply since the project budget included in the contract and its amendments up until that time did not differentiate between sources. Although Amendment No. 2 to the contract dated August 18, 1987 provides a breakdown of all of the

funds received to date by funding source, reporting does not yet reflect each funding source. We would encourage LAC/DR/HN to discuss this issue with RF/SUNY and to assist them in developing a reporting system to accommodate this information requirement.

The financial information reported is based on a format provided to RF/SUNY by the LAC Bureau, according to the RF/SUNY Project Director's assistant. From a project management perspective, it is uninformative and inadequate. All that is reported is amount authorized, obligated, committed and accrued expenditures, with no breakdown by funding source. Information is obtained from the AES record discussed above. The report does not include any financial information by budget line item or activity (e.g. country study) or provide any comparison between budgeted and actual expenditures. The amount indicated for accrued expenditures includes actual disbursements and accrued expenses. It therefore cannot be validated against the SF 1034 or SF 272 since the latter two report only actual disbursements.

The narrative portion of the report contains a summary of project activities, status of country studies and problems and delays encountered. Also included is a chart which depicts the staff/consultant effort in weeks regarding project outputs (e.g. review paper, exploratory visits, workshops and country studies). For country studies, there is a breakdown of effort (in weeks) by consultant per country. However, the status of the study is not indicated.

Since the country studies are a major part of the project, the report would be more useful from a technical and financial management perspective if a country study progress chart were presented that included the following information for each study: the country, type of study, current status, budgeted amount, actual disbursements, encumbered (obligated) expenditures and remaining balance.

The report would also be more useful if it presented a financial summary by budget line item that included budgeted amount for current year, reporting period disbursements and encumbered expenditures, cumulative disbursements and encumbered expenditures, and remaining balance. This should be done by funding source. However, LAC/DR/HN and RF/SUNY must first agree on how to break down those costs which are not readily traceable to a region, for example, staff salaries.

In addition, a simple table indicating total cash received, total disbursements, and cash on hand would be valuable from a cash management perspective.

All of the above financial information could be easily obtained from the project's monthly AES record or in the case of

country study budgets/disbursements, from the Project Director's records.

A final point concerns the requirement in Modification 3 to the contract regarding separate tracking and reporting of funds earmarked for the Dominican Republic Household Survey. Although the modification indicates that separate reporting is required by the D.R. Mission, it does not indicate that this financial information must also be provided to LAC and M/FM/PAFD. Currently, the additional funding provided for this survey is not tracked separately by RF/SUNY's automated system but is included in the overall budget. If this reporting requirement is limited to the DR Mission and the LAC Bureau, then it may be met through the recommended country study progress chart discussed above. If this information must also be included on the M/FM/PAFD vouchers (to liquidate the advance against the proper obligation), then action must be taken to differentiate these funds in RF/SUNY's accounting system. We would encourage the AID Project Officer to clarify this reporting requirement for RF/SUNY and to assume responsibility for its implementation.

2. Cash Management

From October 1, 1985 through September 30, 1987, RF/SUNY withdrawals from its letter of credit had reached US $1,781,016.17, covering several projects, among which is the Technology Development and Transfer in Health Project. These fund withdrawals are requested, monitored and accounted for on a per project basis by RF/SUNY's Office of Financial Services in Albany. They are included in the project's AES record as well. As of June 30, 1987, $825,517.17 had been withdrawn from the letter of credit for this project as compared to $828,664.47 in disbursements as of the same date.

The cash management system of RF/SUNY is centralized with all requests for letter of credit withdrawals as well as all disbursements made from the head financial office in Albany. We noted that the ending cash on hand reported in each Consolidated SF 272 is always negative, ranging from $(247,726.69) to $(7432.63), which indicates that RF/SUNY is advancing money to implement the two AID projects. However, as can be seen in the figures above for the project under review, RF/SUNY's cash management is highly efficient, with project disbursements being only $3,147.30 greater than cash received. According to the Assistant Director of Financial Services, who authorizes requests for letter of credit withdrawals, drawdowns are usually on a monthly basis.

AID funds are maintained in the same bank account in Albany as are RF/SUNY operating funds.

At a more micro level, cash advances to employees are "aged" in the automated recordkeeping system. In this way, outstanding cash advances can be monitored to ensure that employees do not have excess amounts of RF/SUNY cash for any length of time.

3. Internal Controls

a. Segregation of Duties

The accounting and reporting functions are properly segregated. Transaction approvals, processing and recording are handled separately. Project expenditures are incurred and processed in the Stony Brook office and checks are disbursed from the Albany office. Reporting is also separated; as indicated above, reports to M/FM/PAFD are prepared in Albany and reports to the LAC Bureau are prepared by the technical unit in Stony Brook.

b. Processing of Disbursements

Only original documents and preferably an invoice rather than a statement are accepted for processing payments to vendors. Invoices are subject to review and scrutiny by several people including the Grants Administrator, the Invoice Processor, the Data Entry Clerk and the Accounts Payable Supervisor.

c. Approval of Expenses

The Project Director or his assistant and the Grants Administrator must approve all encumbered (obligated) and non-encumbered expenditures. In addition to reviewing the supporting documentation, the Grants Administrator is responsible for certifying funds availability based on scrutiny of the project's AES record, which, because it is online, is constantly up to date.

d. Authority Limits

Any expenditures above $1,000 must be approved by one of the university's Fiscal Designees rather than a Grants Administrator. The Grants Management Office has four Fiscal Designees on its staff. Any project expenditures greater than $5,000 must have the written approval of the appropriate Project Director.

e. Internal Audit Group

An internal audit group is located at the Stony Brook campus. To date, project related transactions have not been reviewed by this group.

4. Systems and Procedures

a. Recordkeeping

RF/SUNY's accounting system is automated with all campuses having online access to the Central Accounting Office in Albany. Project related transactions are processed for payment by Stony Brook's Research Foundation Accounts Payable Office. This office also handles operating expense transactions of the Foundation. Accounting data entry is performed by several offices including Purchasing, Payroll, Grants Management and the Travel Office in addition to the accounts payable group. For proper expense account charging and monitoring, each contract/project is assigned a unique code.

The automated accounting system includes an Account Expenditure Summary (AES) record for each project. Whenever financial transactions are processed, such as obligations or disbursements, the AES is automatically updated. Thus at any point in time one can determine the exact financial status of the project. The AES is scrutinized by the Grants Administrator before certifying funds availability and is the basis for both the SF 1034 and the project's quarterly progress report.

A hard copy of the AES is generated on a monthly basis and forwarded to the appropriate Project Directors. The record presents project monthly expenditures, total expended and total encumbered (obligated but not disbursed) per budget line item, all of which are input at Stony Brook. Also included is budgeted amount per line item, which is input at Albany.

The AES is accompanied by various schedules showing the details of payments per budget line item. Entries in the detailed payment summary are not referenced. However, transactions can be traced using the amount and payee's name as references. The AES also includes a cash flow statement for the project indicating cash received under the letter of credit, disbursed and remaining balance.

Refer to Exhibit 1 for a flowchart of recordkeeping and financial reporting.

b. Disbursements

Depending on the type of service/supplies being ordered/paid, disbursements relating to project and nonproject expenses are covered by requisition orders, third party forms or travel vouchers, and where required, by purchase orders as well. All project related transactions must be approved by the Project Director or his assistant. For those disbursements greater than $5,000, the former's written approval is mandatory. All project

related transactions are reviewed by the Grants Management Office for availability of funds and for funds monitoring and control purposes.

There are two classifications of expenditures: encumbered and non-encumbered:

Encumbered expenditures (or obligated) are for purchases from vendors in amounts greater than $250; for payments to a consultant when they are in more than one increment; and for travel advances. The Grants Administrator encumbers travel advances in the accounting system whereas the Purchasing Department encumbers vendor/consultant payments before the documentation is submitted to the accounts payable group.

Non-encumbered expenditures are for vendor payments which are less than $250; for payments to consultants when they are in one lump sum; for travel reimbursement; and for petty cash reimbursement to staff. With the exception of travel vouchers, documents relating to non-encumbered expenditures are submitted directly to the accounts payable branch for processing once they have been approved by the Project Director (or assistant) and Grants Administrator. Travel vouchers are processed for payment by the Travel Office.

Payments are processed by one of nine processors in the accounts payable group. All supporting documentation is scrutinized, the purchase order (or other RF/SUNY form) is initialed by the processor, and the package is submitted to one of the terminal operators for input. At the end of each day's processing of disbursement transactions, a list of transactions is generated by the system with summary totals for encumbered and non-encumbered disbursements. These totals are reconciled against a summary tape of invoices by the terminal operator. The Accounts Payable Supervisor reviews every transaction to ensure that the account code charged is accurate and that the supporting documentation is sufficient. This is done for the travel vouchers processed as well.

Check payments are prepared by RF/SUNY's Central Accounting Office in Albany approximately 24 hours after the disbursement transactions have been processed at RF/SUNY's various campuses. The check payments are submitted either directly to the vendor or to authorized persons at RF/SUNY's campuses.

We sampled five project related transactions (two travel payment requests and three purchase orders) in order to validate the information obtained in our interview. Our observations are as follows:

o All documents were duly signed by the Project Director

either as a requisitioner or as approving officer for project transactions. All include the required approval of the Grants Administrator.

o Documents were stamped "PAID", dated and duly initialed by the authorized persons.

o Purchase Orders are supported by vendors' invoices while travel payment requests were signed by the travellers. The encumbered travel voucher requesting a travel advance was supported by an itinerary of expected travel. The non-encumbered travel voucher submitted as reimbursement was supported by an airplane ticket.

c. Policies and Procedures

According to the staff interviewed, there are written policies covering certain general RF/SUNY procedures. However, we were only provided with the Statement of Travel Policy.

From our limited assessment, it appears that RF/SUNY at Stony Brook has adequate procedures and controls regarding approval of expenses and processing of disbursements. We would encourage the documentation of these procedures and policies as a means for providing easy reference for all employees for when questions and/or concerns arise.

d. Subcontracting procedures

Under the contract provisions, project activities may be subcontracted to two organizations: The Group Health Association of America, Inc. (GHAA) and the International Resources Group, Ltd. (IRG). Both subcontracts must receive approval from AID prior to finalization. Our findings indicate that both subcontracts were submitted to AID as required.

The RF/SUNY procedures for subcontracting are well established. A requisition order is completed by the Project Director involved and submitted to the Grants Management Office along with a budget and proposed workscope. A Grants Administrator reviews the workscope, associated provisions and budget against the prime contract to ensure appropriateness of project activities and funding needs. Once approved, the Purchasing Department encumbers the budgeted amount and all relevant documentation is forwarded to the Legal Affairs Department in Albany where the contract is drawn up and issued.

Payment to subcontractors is generally on a cost reimbursement basis. Invoices are submitted to the Project Director and approved based on his knowledge of project activities. A Grants Administrator must also approve each invoice

in order to check for compliance with subcontract provisions and availability of funds. Invoices are processed for payment by the accounts payable group as discussed in subsection b-Disbursements above. According to the Grants Administrator, the accounts payable group will not process payments to subcontractors (even if funds have already been encumbered) unless they have been notified that the contract has been signed.

The subcontractors' principal function is conducting country studies with regard to health care financing. Each subcontractor has a full-time study coordinator. This person's responsibilities include organizing local counterparts to assist their consultants, handling all logistics with regard to conducting the study, supervising the study and monitoring expenditures, and serving as liaison between the prime (RF/SUNY) and themselves. Each communicate on a regular basis with the Project Director at RF/SUNY.

There appears to be close coordination and supervision of subcontractor activities. RF/SUNY participates in all phases of each study and is therefore kept informed of subcontractor progress and/or problems. Our review of the correspondence files at LAC/DR/HN indicates that the AID Project Officer is also kept well informed of subcontractor activities.

We selected a number of documents to further assess RF/SUNY's subcontracting procedures. These included: (1) the contract between GHAA and RF/SUNY; (2) a subcontract issued by GHAA; (3) a request for funding submitted by IRG; and (4) an invoice submitted by IRG for payment. Our findings are indicated below.

(1) RF/SUNY - GHAA Subcontract

The key provisions of the subcontract include payment provisions, scope of work, reporting and required approvals. Payment is to be made on a reimbursement basis, 30 days after an invoice for expenses incurred has been submitted by GHAA. GHAA is required to maintain all records and invoices which are subject to audit by RF/SUNY or its designated external auditor.

The scope of work to be performed is not detailed in the subcontract, but rather, is referenced to the scope of work in the prime contract and to a brief abstract attached to the subcontract. However, as each activity (country study) has its own statement of work and budget, this provision appears adequate.

In terms of reporting, the provision also references the scope of work and the prime contract. As we were unable to obtain a copy of these references, we cannot assess the adequacy of the

reporting requirements.

With regard to approvals, a provision is included which stipulates that the subcontract is subject to review and approval by AID.

(2) GHAA sub-subcontract

In order to complete the study in Bolivia, GHAA in turn subcontracted Prosalud, another organization. The sub-subcontract includes the names of the Prosalud staff members to participate in the project; the level of effort required for each phase of the project, which was supplemented by an attached scope of work; the amount of compensation; the terms of payment; and the project duration dates. The sub-subcontract also includes a provision that its implementation is contingent upon approval by AID. Finally, the sub-subcontract includes a certification by GHAA's General Counsel as to the adequacy of its provisions.

(3) IRG request for funding

We reviewed the request for funding submitted in August, 1987 for the following sixteen months. A total budget is presented including program and administrative costs, followed by budgets for each country study to be conducted. These budgets would be more informative if certain budget line items were further defined, such as labor, consultants, subcontractor and travel. Such information would facilitate assessing the appropriateness of the costs indicated.

(4) IRG request for payment

We reviewed a monthly invoice submitted to RF/SUNY's account payable group for payment, a copy of which was provided to the Project Director. The invoice is sufficiently detailed, and is supported by travel vouchers, invoices and receipts for all of the costs claimed under consultants/subcontractors, travel and per diem, and other direct costs budget line items. The invoice is accompanied by a fiscal report certified by IRG's Controller. The fiscal report presents by budget line item the budgeted amount, current period disbursements, disbursements to date and remaining balance.

e. Short-term consultant procedures

RF/SUNY retains the services of consultants to participate in the country studies conducted. The contract stipulates that written approval must be obtained from AID prior to procuring consultant services. Such approval should be indicated on the country study proposal submitted, which includes the names and biodata sheets of the proposed consultants. We reviewed once such

proposal and noted that it was duly signed by the AID Project Officer.

There is no formal agreement signed with a consultant unless the total price exceeds $5,000. In that case, a contract is drawn up by the Legal Affairs Department in Albany. Otherwise, a standard letter serves as the consultant agreement.

We reviewed a standard contract form and noted that it includes adequate provisions for contract implementation. We also reviewed one letter and noted that it includes only the name of the project, the project duration dates and the number of days of field and preparatory work. Although the letter does not indicate the consultant's scope of work or his fees, these are included in the country study design and the consultant's Contractor Employee Biographical Data Sheet. We believe that a more formal document which is signed by the consultant and includes provisions with regard to scope of work, fees and payment terms should be used. Such a document would facilitate RF/SUNY obtaining legal recourse should this be required.

Payment for the consultant's services is usually made upon completion of the engagement. In cases where payment is made during implementation, fees are paid on an accrual basis only. For travel and per diem expenses, an advance is generally provided to the consultant, subject to liquidation upon submission of a travel voucher and related receipts.

5. Accounting Filing System

Documents which have been processed for payment are sorted and filed by grant. Those which have not yet been processed such as purchase orders awaiting a delivery or invoice are filed numerically by purchase order number. Accounting documents for each grant/donor are filed in separate folders per type of payment, e.g. travel or vendor payments. The documents are not fastened together within each folder. Petty cash documents are filed separately by year and boxed at year-end.

VI. TECHNOLOGY DEVELOPMENT AND TRANSFER IN HEALTH: CLINICAL TRAINING COMPONENT

Implementing Organization:	Interamerican College of Physicians and Surgeons (ICPS)
Cooperative Agreement No.:	LAC-0632-A-00-5094-00
AID Project Officer:	Ms. Julie Klement
ICPS Project Director:	Mr. Luis Patino
Project Duration:	July 1, 1985 to January 3, 1990
Amount of Funding:	$ .90 million AID .57 million ICPS $1.47 million TOTAL
Method of Payment:	Letter of Credit
Persons Interviewed:	
AID:	Ms. Julie Klement Ms. Jean Washington, Financial Analyst
ICPS/Washington, D.C.	Mr. Luis Patino Ms. Vicki Nelson, Administrative Assistant
ICPS/New York:	Dr. Rene Rodriquez, President Ms. Madeline Machado, Bookkeeper
Report Format:	A. Introduction B. Scope and Objectives C. Methodology D. Organization Overview E. Project Overview F. Conclusions and Recommendations G. Detailed Findings 1. Reporting System 2. Cash Management 3. Internal Controls 4. Systems and Procedures 5. Filing

A. Introduction

Price Waterhouse was engaged by the Latin America and Caribbean (LAC) Bureau of the U.S. Agency for International Development to assess the financial reporting systems of several organizations implementing LAC Bureau funded projects. One of the projects selected for review was the Technology Development and Transfer in Health project, within which is the Apreton de Manos Curativos clinical training component implemented by the Interamerican College of Physicians and Surgeons (ICPS).

An integral part of our review included a visit to ICPS offices in Washington and New York in November, 1987. We would like to thank the ICPS staff for their assistance and cooperation in conducting this review.

B. Scope and Objectives

This review covers the financial information and reporting system of ICPS with the objectives of ascertaining a)compliance with the cooperative agreement requirements for reporting and b) the adequacy of information provided in terms of management oversight. The review is also aimed at providing assurance to the AID Project Officer as to the quality and timeliness of financial information supplied by ICPS as well as to the adequacy of ICPS's overall internal controls and systems and procedures in this regard. Based on our findings, recommendations will be developed to enhance the information and reporting system by implementing organization as well as to improve the LAC Bureau's contract monitoring system.

Our review does not constitute an audit of the project or ICPS and therefore an opinion will not be rendered. In addition, this review does not constitute a technical evaluation of the project.

C. Methodology

In order for us to make a meaningful assessment of the financial reporting system, consideration was given to areas directly and indirectly related to the generation of financial information. We designed a comprehensive work program that included an appraisal of the organization's internal controls (segregation of duties and approval of transactions) and systems and procedures (recordkeeping, disbursements, subcontracting, cash management and filing) in order to put our review of the financial reporting system into the proper framework. Also included in the program was a review of the project history as well as the nature of organization's relationship with AID and other donors.

In conducting this review, various methodologies for fact

finding were employed. These included interviewing of staff at the ICPS offices in Washington, D.C. and New York, inspection of project records and tracing of several transactions as to documentation requirements for payment and to verify procedures as described in our interview. In addition, the audit reports for 1985 and 1986 were reviewed.

In terms of financial reporting, we reviewed and analyzed the reports submitted to M/FM/PAFD and progress reports provided to the LAC Bureau to determine compliance with the provisions of the cooperative agreement as well as the quality of information provided to AID. A flowchart was also developed for the flow of transactions and information between ICPS/W (Washington) and ICPS/NY (New York) in order to better understand and analyze the existing information flow.

D. Organization Overview

The Interamerican College of Physicians and Surgeons (ICPS) is a non-profit, tax-exempt, nongovernmental organization incorporated in the District of Columbia as an educational, charitable, medical corporation. It is governed by an eight-member Board of Regents, presided over by a Chairman. Its headquarters are in New York City.

ICPS was created to promote greater communication and cooperation among Hispanic physicians practicing in the U.S. and Latin America. ICPS's objective is to foment a professional network among the physicians of the Americas and Spain and serve to develop and stimulate friendship and cooperation among physicians through the Americas by harnessing their talents, resources and goodwill for the betterment of society. Its activities in this regard include the Apreton de Manos Curativos project, the clinical training component of AID's Technology Development and Transfer in Health project.

E. Project Overview

The Apreton de Manos Curativas project is a physician-to-physician exchange program. The purpose of the cooperative agreement with AID is to design and implement a medical technology exchange program between members of ICPS practicing primary care medicine in the U.S. and physicians in South America, Central America, the Caribbean and Mexico.

The project involves the following activities:

o Placement of LAC Physicians with Spanish speaking primary care practitioners for varying periods of 6 months or less in rural and urban areas in the USA

o Design and conduct of informal/formal structured training

programs to be supervised by ICPS physician preceptors

o Short-term technical assistance by Spanish speaking physicians in LAC Country settings

o Establishment of a clearinghouse function for the selection and placement of clinical training candidates in short- and long-term training programs in the U.S.

The principal focus of the project is on bringing physician trainees to the U.S. Candidates for training are selected by the USAID Missions and reviewed by the AID Project Officer and ICPS Project Director in Washington. Once the candidate is approved, a training implementation plan (T.I.P.) for the clinical training period is developed and all of the logistics arranged by the ICPS staff. There is no contract signed between the trainee and ICPS or AID. While the trainee is in the U.S., the ICPS staff maintains frequent contact with him/her. At the end of the trainee's stay, an exit interview and formal evaluation are conducted by ICPS staff to discuss the training experience and obtain suggestions for improvement.

The Apreton de Manos Curativas project is managed out of ICPS's office in Washington, D.C. This office was set up for the project and its staff of three, a Project Director, an Administrative Assistant and a Secretary/Receptionist, work solely for the project.

F. Conclusions and Recommendations

1. Reporting System

Our findings indicate that the financial reports submitted are generally completed according to instruction and are in compliance with contract provisions. In addition, the financial information presented appears adequate to substantiate progress. However, we believe that certain improvements can be made to facilitate AID management oversight. Our recommendations are as follows:

(a) The financial summary should include budgeted and cumulative information.

Currently, the financial summary in the quarterly report does not include budgeted amount and cumulative expenditures per budget line item. We recommend that such information be included to enable the AID Project Officer to track project expenditures from one quarter to another. In addition, providing annual budgeted amounts enable both the AID Project Officer and the ICPS Project Director to monitor the rate of yearly spending and ensure that expenditures are within approved limits.

(b) The financial information presented in the LAC quarterly report should reconcile with that submitted to M/FM/PAFD.

We reviewed the reports submitted to the LAC Bureau and M/FM/PAFD for the quarter ending June, 1987 and noted that the total disbursements do not reconcile. We recommend that all reports for a given period be carefully scrutinized prior to submission to ensure that the financial information reconciles.

(c) Procedures for allocating costs between funding sources should be formalized.

Currently, costs are allocated between funding sources based on a verbal agreement with the AID Project Officer. We recommend that the procedure for allocating costs be formally documented by the AID Project Officer in an amendment to the agreement. Formalized procedures serve as a ready reference for project staff and can facilitate the transition process should new project staff be assigned at AID or ICPS.

(d) The LAC Project Officer should assume responsibility for monitoring the reports submitted to M/FM/PAFD.

Our findings indicate that reports submitted to M/FM/PAFD have been untimely and do not differentiate between funding source. In addition, several past reports were inaccurate and were therefore revised and resubmitted to M/FM/PAFD. We recommend that the AID Project Officer assume responsibility for ensuring that the implementing organization meets all of the reporting requirements as set forth in the cooperative agreement. If necessary, the Project Officer should communicate with M/FM/PAFD to clarify their financial information requirements. This is a necessary element of the Project Officer's project administration responsibilities but is not meant to lessen the responsibilities of M/FM.

(e) The LAC Project Officer should review the SF 272 to monitor the cash management of the project.

Our findings indicate that ICPS submits a copy of the SF 272 Federal Cash Transactions report to the LAC Bureau which indicates the cash status of the project. Although this report is scrutinized by M/FM/PAFD, we recommend that the LAC Project Officer review this report as part of his/her fiscal responsibilities to assess the overall cash management of the project.

(f) The narrative portion of the quarterly report should be expanded.

Currently, the narrative portion of the quarterly report submitted presents adequate information on current project accomplishments and problems encountered. We recommend that it be expanded to include information on future project activities to provide a long range perspective. In addition, we recommend that a comparison be presented, perhaps in graphic form, of the number of trainees and preceptors (sponsors) who have participated in the project to date versus the number originally targeted.

2. Cash Management

From our limited assessment, it appears that ICPS has adequate cash management procedures. However, the organization has paid interest in the past for outstanding cash balances maintained. We would encourage ICPS to review its system for requesting cash to avoid interest charges.

3. Internal Controls

From our limited assessment, it does not appear that ICPS has adequate internal controls in place. Although we recognize that ICPS is a small organization and that an external audit group reviews project disbursements, we believe that certain essential controls should be instituted. We therefore recommend the following:

(a) A segregation of duties should be established.

Currently, the processing of payments (with the exception of participant costs), check preparation and recording, check signing and bank reconciliation are all handled by the Bookkeeper in New York. We recommend that a realignment of responsibilities be made to segregate these functions in order to ensure an adequate level of internal control.

(b) Authority limits should be instituted.

Currently, there are no established policies on the amounts which may be approved by the Project Director in Washington, D.C. or Bookkeeper in New York. In addition, only one check signature is required for the accounts maintained in these two cities. We recommend that authority limits be established on payments which may be approved by the Project Director or processed by the Bookkeeper. In addition, we recommend that two check signatures be required for check payments over a certain amount.

(c) A system of approvals should be formalized and enforced.

According to the staff interviewed, all invoices are subject to approval by the Project Director prior to processing by the Bookkeeper. We reviewed 12 payment transactions and noted that only two had the required Project Director approval. We recommend that the system of approval be formalized and enforced so that all invoices will reflect the required approvals.

4. Systems and Procedures

Our findings indicate that ICPS's systems and procedures with regard to the project are generally adequate. We offer the following recommendations with regard to recordkeeping, disbursements and filing:

(a) A cost/benefit analysis should be performed with regard to the use of the external auditing firm.

Currently, an external auditing firm reviews all project disbursements and transactions on a monthly basis. The firm is paid $1,000 per month out of the project budget. We recommend that a cost benefit analysis be performed on engaging the services of an external audit group versus employing an accountant on a part time basis. From our limited review, it appears that one day per week would be sufficient as project transactions are not numerous. In addition, employing an accountant would serve to strengthen ICPS's internal controls.

(b) Per diem disbursements to participants should be accompanied by signed receipts.

Currently, an acknowledgement receipt of per diem received is not signed by the participant until the end of his/her training. We recommend that for fund control purposes, receipts should be signed by participants each time they are given funds.

(c) Disbursements to participants should be made to them directly or through the participant's preceptor (sponsor).

The project staff indicated that because trainees have had problems cashing checks, some per diem payments have been sent to them made payable to their landlords. We recommend that check payments be made payable only to the participant or his/her sponsor who is personally known to ICPS staff rather than to a third party.

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(d) All invoices processed should be marked "paid" and the check number indicated.

In our review of several transactions, we noted invoices processed in a batch are fastened together but do not each include a reference as to having been paid. We recommend that this information be included on each invoice to ensure that it is not paid again should it become separated from the others.

(e) Documents should be fastened to avoid getting lost.

We reviewed the filing system in New York and noted that accounting documents are filed separately and are easily retrievable. They are not however fastened in each file. We recommend that documents be fastened in a logical order to avoid getting lost or misplaced.

NOTE:

In a telephone conversation with the Project Director in January, 1987, he indicated that the project accounting function with the exception of payroll processing has been relocated to Washington, D.C. He stated that the Project Secretary will assume responsibility for the recordkeeping and processing of payments. The Project Director will continue to authorize payments and sign checks. This relocation of the accounting function should facilitate the disbursement process and ensure that all invoices are approved by the Project Director prior to payment.

For internal control purposes, we recommend that authority limits be instituted with regard to disbursements. The firm's President should provide written approval for any payments over $2,000. In addition, two check signatures should be required for disbursements greater than $2000.00. We recommend that the third project staff person, the administrative assistant, be the second signatory. Finally, any check payments greater than $5,000 should require the signature of ICPS's President.

For cash management purposes, we recommend that a weekly cash status report be prepared for the Washington D.C. account since all disbursements will now be made from this account. This report will allow the Project Director to effectively monitor the project's cash flow and should be the basis for requesting advances from AID. A copy of this report should be provided to ICPS's President.

G. Detailed Findings

1. Reporting System

Reports required by AID under this cooperative agreement include the following:

- o Financial Reports
  - Federal Cash Transaction Report (SF 272)
  - Financial Status Report (SF 269)
- o Program Performance Reports
- o Special Reports

In addition, an annual workplan has to be submitted to AID for approval. Below is an assessment of these reports from the standpoint of compliance with cooperative agreement provisions and adequacy of information for management purposes.

a. The SF 269 and SF 272 Reports

The two financial reports (SF 269 and SF 272) are standard reporting requirements for grants and cooperative agreements funded through a letter of credit. Both must be submitted quarterly to AID's Office of Financial Management, Program Accounting and Finance Division (M/FM/PAFD) with copies provided to LAC/DR/HN. Our findings indicate that copies are submitted to the LAC Bureau as required.

For recipients receiving less than one million dollars per year, the SF 272 must be submitted quarterly no later than 15 days following the end of each reporting period. We reviewed all of the SF 272s submitted to M/FM/PAFD and noted that they were prepared in accordance with the instructions provided by M/FM/PAFD. We also noted that there are two sets of these reports for the five reporting periods covering December 1985 to December 1986. The first three reports of the initial set were prepared under the direction of the previous Project Director whereas the last two were prepared once the new director took over in August, 1986. All were submitted approximately two months after the end of each quarter. In April, 1987, these five reports were revised and resubmitted to AID. Information reported was the same with the exception of gross disbursements. The total reported disbursements on the first set are less than the second set in the amount of $8,898.66.

In our discussion with the Financial Analyst at M/FM/PAFD responsible for ICPS, she indicated that M/FM/PAFD only maintains automated financial reporting information for the current and three previous quarters. Thus only the revised reports from June 1986 would have been reentered into the automated system.

The SF 272 reports for the quarters ending March and June 1987 were submitted 15 and 20 days after the end of each quarter, respectively. As of the date of this review (November, 1987), the report for the quarter ending September 1987 has not been prepared and submitted by ICPS.

The SF 269 reports were not prepared until July 1986, almost a year after the project began. There are two sets of these reports also, covering the reporting period October 1985 to March 1986. The first set is composed of just one report, covering the period October 1985 to March 1986. It was prepared and submitted in July, 1986 under the direction of the former Project Director. The second set covers the same period and was redone on a quarterly basis as required and submitted by the current Project Director in March 1987. The cumulative disbursements as claimed in the first set are $66,175.13 more than the revised set. As mentioned above, M/FM/PAFD only maintains financial information in their system for the current and previous three reporting periods. However, since cumulative disbursements are reported on each report, M/FM/PAFD's information should reflect the new balance provided by the current Project Director.

The reports for the last three quarters of 1986 were also prepared and submitted in March, 1987. The report for the period ending March, 1987 was submitted in April. All of the SF 269 reports on file have the required AID Project Officer approval. The remaining reports due for the quarters ending June 1987 and September 1987 have not been prepared and submitted by ICPS as of the date of this review.

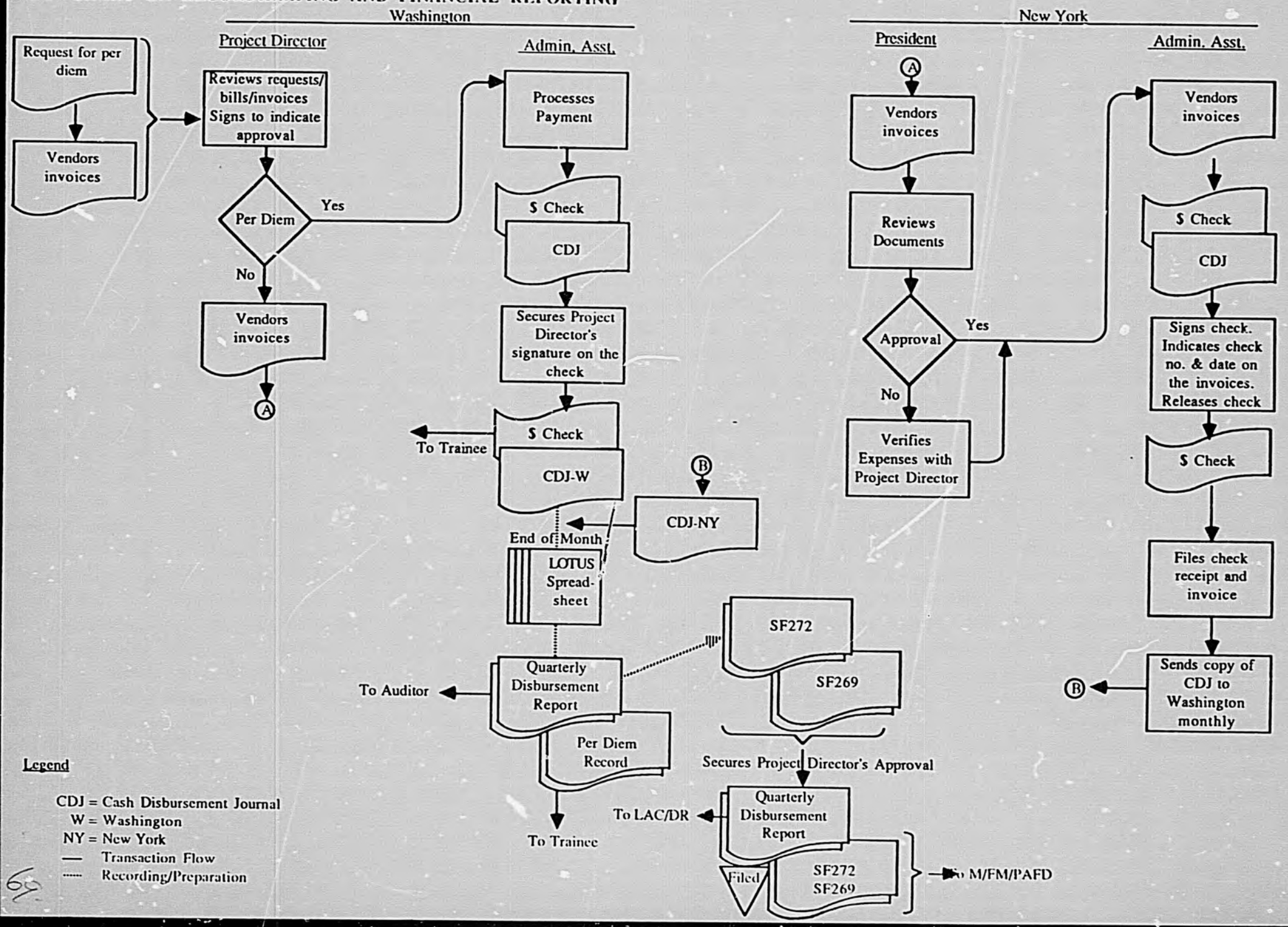
In summary, it appears that under the management of the previous Project Director, there were reporting problems with respect to both requirements and accuracy of information reported. The current Project Director is attempting to rectify past mistakes and improve the reporting system. ICPS has caught up on their financial reporting requirements to M/FM/PAFD through March 1987 for the SF 269 and through June 30 for the SF 272. In addition, the reports are now submitted to ICPS's external auditors for review. Particular attention should now be placed on timeliness of reporting and submitting the remaining reports which are overdue.

Currently, the SF 269 and SF 272 reports are prepared by the Administrative Assistant under the direction of the Project Director who certifies them. Said reports are based on the records maintained by the ICPS office in Washington, D.C. as well as the records maintained in New York, copies of which are forwarded to D.C. The recordkeeping and therefore the reporting is done on an actual as opposed to an accrual basis. Refer to Exhibit 1 for a flowchart of project recordkeeping and reporting.

ICPS

Exhibit 1

FLOWCHART ON RECORDKEEPING AND FINANCIAL REPORTING



Legend

CDJ = Cash Disbursement Journal
W = Washington
NY = New York
— Transaction Flow
..... Recording/Preparation

We compared the revised sets of SF 272 to the SF 269 reports and noted that the disbursements indicated in each reconciled. However, we noted that the SF 269 reports do not indicate disbursements by funding source. According to Modification No. 1 of the cooperative agreement dated July 31, 1986, financial information reported must differentiate between Central America and Latin America region funds. The SF 269 reports submitted subsequent to this modification have been approved by the AID Project Officer although they have not differentiated between funding sources. According to M/FM/PAFD, it is the responsibility of the AID Project Officer to monitor the implementation of the requirement to report by funding source. If funding sources are not indicated, M/FM/PAFD liquidates the expenses on a FIFO (First in/First out) basis according to the date obligations were made. (Note that ICPS is tracking costs by funding source and is reporting this information in its quarterly report to the LAC Bureau.)

b. Program Performance Reports

Under the cooperative agreement, ICPS is required to submit a quarterly program performance report to LAC/DR/HN. The report should include progress to date, comparison of actual accomplishments with the goals established, reasons why goals have not been met, implementation problems and proposed solutions, status of obligations and expenditures, and proposed activities for the next quarter including travel plans. In our review of the program performance report for the period ending June 30, 1987, we noted that it generally was prepared in accordance with the requirements of the agreement.

The financial summary included in the report presents expenses according to budget line item except for categories covering "Travel" and "Exchange Physician Training". These two budget line items are further broken down into participants and non-participants (preceptors/staff) and include expenses for per diem, travel, membership in professional associations and health insurance coverage. Also included are expenses for training books/materials and conferences as well as orientation.

The financial information is presented by funding source, e.g. LAC and CA funds. According to the ICPS Project Director, the process for allocating costs was decided upon verbally with the Director of LAC/DR/HN. Costs which are readily traceable to a region, such as all of the costs associated with a participant from Belize, are allocated to the appropriate region, in this case Central America. Those costs which are not directly identifiable, such as salaries and other administrative expenses, are allocated to each region by a ratio representing the percentage of participants currently in the U.S. from that region. Thus, if 6 out of 10 participants currently in the U.S. are from Central America, then 60% of administrative costs are

allocated to the CA fund.

The summary does not provide information as to the cumulative expenditures or budgeted amounts per budget line item. Such information is critical for tracking project expenditures from one quarter to the next. In addition, providing annual budgeted amounts enables both the AID Project Officer and the ICPS Project Director to monitor the rate of yearly spending.

The report is prepared by the Project Administrative Assistant and reviewed by the Project Director. A copy is submitted to the firm's external auditors for review and reconciliation with their records. The report is prepared on an actual rather than an accrual basis and is based on the project's records which include a cash disbursement journal per bank account.

We compared the disbursements reported in the progress report for June 1987 with those reported in the SF 272 and we found the latter to be greater by $2,141.04. Given that these reports cover the same reporting period and both reflect actual disbursements, the total disbursements reported to the LAC Bureau should reconcile with those reported to M/FM/PAFD.

The narrative portion of the report presents a brief project background history, project purpose, accomplishments and status of the training as well as some recommendations for preparing training plans. However, it does not include write-ups on proposed/future activities as well as travel plans, if any. The accomplishments and progress to date are very informative as they provide information on new trainees and events, and problems encountered and actions taken. It would be more informative if a comparison were presented, perhaps in graphic form, of trainees and preceptors who have participated to date versus the number originally targeted. Information on future activities should also be included.

c. Special Reports

The cooperative agreement includes a requirement that special reports must be prepared and submitted upon request by the AID Grant or Project Officers. None have been requested as of the date of this review.

2. Cash Management

The project's cash management system is quite simple. Project funds are monitored through the Cash Disbursement Journal (CDJ) which shows the cash balance, deposits made and withdrawals which are supported by checks issued. Both ICPS/W and ICPS/NY maintain/monitor cash balances through the CDJ for their respective accounts.

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Separate bank accounts are maintained for the project in order to segregate the project funds from other ICPS funds. One bank account is maintained in Washington and another is maintained in New York. The Washington account is for project disbursements as related to participant trainee costs such as per diem. The New York account is for project disbursements with regard to operating expenses, e.g. salaries, rent, telephone, equipment and the like and for airline tickets for trainees. In addition, the New York account is the one in which letter of credit withdrawals are deposited. Bank reconciliations of these accounts are prepared monthly in the Washington and New York offices respectively and are forwarded to the organization's external auditors for review.

Since the start of the project through June 30, 1987 (the last period for which the SF 272 has been submitted), ICPS has withdrawn a total of $649,922.23. Project disbursements for this period total $608,552,47. Its remaining cash on hand at the end of each reporting period has ranged from $1,718 to $64,092. According to the audit reports prepared by Taveras & Perez Mena, the net cash flow balance on the AID fund account on December 31, 1985 and December 31, 1986 was $64,092.43 and $62,851.19 respectively. Note that ICPS has paid interest to AID on its fund balance.

Request for withdrawals from the letter of credit must be approved by the organization's President. They are based on rough estimates of participant cash needs made by the Project Director and operating expense cash needs made by the Bookkeeper in New York.

3. Internal Controls

a. Segregation of Duties

At ICPS/W, where the staff includes the Project Director, the Administrative Assistant and the Receptionist/Secretary, per diem processing and recordkeeping are handled by the Administrative Assistant. The check payments, however, are signed by the Project Director. The Administrative Assistant also prepares the reports which are reviewed by the Project Director.

At ICPS/NY, the processing of payments, check preparation/recordings, check signing and bank reconciliation are all handled by the Bookkeeper. In addition, this person handles other accounting records maintained by ICPS.

b. Approval of Expenses

Expenses for the project are required to pass through the Project Director for approval before payment is made. However, of

the twelve documents we randomly selected for review, only two included the required Project Director approval. The President indicated that he reviews all of the project invoices prior to processing, however, his initials are not indicated on the transaction documents.

c. Limits of Authority

There are no established policies on the amounts which may be approved for project expenditures by the Bookkeeper or Project Director. Moreover, check signing limitations have not been formulated. As a result, the Project Director may sign a check from the D.C. account for any amount as may the New York Bookkeeper for the project account maintained in N.Y. In addition, only one signature is required on a check issued from either of these accounts.

d. Audit

Due to the staffing constraints, a public accounting firm has been retained to review project transactions. The firm conducts monthly reviews of disbursements both for ICPS/DC and ICPS/NY to ensure that expenses are valid and proper. We were informed that all disbursements are reviewed as opposed to a random sampling. The firm also reviews the bank reconciliation statements for the accounts maintained in Washington and New York. In addition, the external auditors receive copies of all of the reports submitted to AID.

We reviewed ICPS's audited financial statements for the years 1985 and 1986 and noted that an unqualified opinion was rendered by the organization's external auditors. We also noted from an internal AID memo that copies of these reports were submitted to the LAC Controller and RIG/A/W. In addition, the LAC Project Officer submitted copies to M/SER/OP/OS/LAC for their review.

4. Systems and Procedures

a. Recordkeeping

Project transaction records are kept both at ICPS/W and ICPS/NY. The records in Washington include a cash disbursement journal, a per diem record, signed acknowledgement receipts, invoice files (although they may not be complete) and copies of financial and progress reports. Those maintained in New York include a cash disbursement journal, invoice files and a payroll sheet.

ICPS/W maintains a separate cash disbursement journal (CDJ) to record all checks processed and paid from the Washington account. ICPS uses the "Safeguard" system in which check

preparation and recording in the CDJ are made simultaneously. At the end of each month, the CDJ is entered into a LOTUS spreadsheet in order to allocate expenses by budget line item as well as by funding source. Account codes have been assigned to each budget line item so that the spreadsheet can then be sorted to generate reports by line item.

Per diems paid to trainees are summarized in a per diem record, also through the LOTUS spreadsheet. A per diem record is printed for each trainee every month and provided to them sc that they can monitor their fund balance while in the program.

ICPS/W also maintains vendor files with invoices submitted. However, the completeness of these files is dependent on the New York office sending copies of all invoices submitted directly to that office.

ICPS/NY maintains a CDJ to record all project disbursements from the account in New York. The same "Safeguard" system is used. A xerox copy of the CDJ is provided to ICPS/W at the end of each month. ICPS/W inputs this information into the same LOTUS spreadsheet, once again coding expenditures according to budget line item and by funding source. It is reviewed by the Project Director, who checks the entries against the copies of invoices he has on file.

The New York CDJ includes the payee and date of payment as well as the cash balance and deposits made, including the date of each deposit. The CDJ also includes an expense classification prepared by the NY Bookkeeper. However, this expense classification is not submitted to D.C. since the project expense categories monitored by D.C. are different. Given that the New York CDJ is for AID project disbursements only, which are not recorded in the ICPS general ledger, it is unclear why the Bookkeeper is taking the time to classify expenses, and doing so differently from the project's budget line items. As the Washington office has to reclassify them, it appears to be a waste of effort on the part of the New York office.

The LOTUS spreadsheet, which includes all of the disbursements indicated in both cash disbursement journals, is used as the basis for preparing the reports for M/FM/PAFD and LAC/DR/HN. As a result, the reports reflect actual disbursements only as opposed to accrued expenditures. For purposes of recording expenses by funding source, expenses are distributed between CA and LAC funds based on a ratio representing the percentage of participants currently in the U.S. from each region. This allocation was agreed to informally with the Chief of LAC/DR/HN.

b. Disbursement Procedures

Disbursement of project funds are handled both by ICPS/W and ICPS/NY. Based on our interviews, all bills for project expenses, whether per diems, travel and other expenses with the exception of payroll, must pass through the Project Director's office for approval. Disbursements for per diem are processed in Washington whereas all other project disbursements are handled in New York. Funds are transferred to the Washington account from the New York account based on a telephone request from the Project Director to the NY Bookkeeper.

Per diem payments are made to trainees from the bank account maintained for the project. Payments from the Washington bank account must be approved by the Project Director, who is the only check signatory for the Washington account. The per diem payments are not supported by acknowledgement receipts. At the end of each participant's training, he/she is required to sign an acknowledgement receipt certifying that the amounts indicated in said receipt as to per diem and travel and book allowances are correct. In terms of an audit trail, such a receipt at the end of the participant's stay may be adequate. However, for fund control purposes, a signed receipt should be required for each payment given to a trainee.

Trainees are usually given an initial payment upon arrival, followed by payments sent to them either by check, American Express money order or wire transfer. The Project Director indicated that getting payments to trainees has been difficult as many are in small towns whose banks do not accept American Express money orders nor are willing to cash checks for the trainees. The participants' preceptors are in turn hesitant to receive checks in their name for tax reasons. As a result, in certain cases per diem checks have been sent to trainees but payable to the order of their landlord, who is then requested to cash the check. Perhaps the project has been lucky to date to have encountered trustworthy landlords. However, a better alternative to this problem should be found rather than sending payments to strangers.

Invoices received by the Washington office are sent to New York for processing after they have been reviewed by the Project Director and copies made for the Washington files.

The NY staff interviewed indicated that in addition to the review of invoices by the Project Director, the President reviews all project invoices before they are processed for payment. However, he does not initial the bills reviewed to signify his approval. According to the President, the Bookkeeper has in her possession only those invoices which he has approved for payment. Those which he questions are retained by him until he can follow-up with the Project Director.

The payroll is also prepared in NY by the Bookkeeper on a bi-weekly basis. All project invoices and payroll are paid out of the project bank account in NY. Signatories to the account include the President and the Bookkeeper, although the Bookkeeper is the usual signatory. There is no limit as to the amount per check that may be signed by the Bookkeeper. The Bookkeeper indicated that she only process invoices approved by the Project Director and that she indicates the check numbers and date on the invoices when paid for easy retrieval.

We randomly selected twelve transactions to verify information gathered during our interview and to sample the documentation requirements for payments. Our observation are as follows:

o Out of 12 invoices tested (all were dated October 1987 with the exception of one which was dated September 1987), only two have the required approval of the Project Director, which is indicated by his initials. These two invoices represented bills for transportation and computer supplies.

o All of the invoices are stamped with the check number and date of check. However, as the check number is not referenced as such, only someone familiar with the system can understand what the number represents.

o The check reference number is not indicated on all invoices payable to a single vendor and which are covered by one check payment. Although the invoices paid by one check are stapled together, this is not an assurance that a single invoice within the group will not be paid again if it becomes separated from the rest.

o Paid invoices are original copies only.

As mentioned, a public accounting firm has been retained to review all project disbursements made in NY and DC. The firm is paid $1,000 per month out of project funds. The organization is considering moving the project accounting function to Washington to facilitate the disbursement process.

c. Policies and Procedures

There are no written policies and procedures to serve as reference in carrying out day-to-day operations. A personnel policy manual is available, which includes information on employment classification, salary fee determination and benefits and vacations among other items. It also discusses travel policies such as approvals, allowances, per diem and the like.

5. Filing System

At ICPS/NY, accounting documents for the project are filed separately from other ICPS transactions. Bills are filed alphabetically. One file is maintained for each vendor/payee, however, documents/bills are not fastened together.

The cash disbursement journal (CDJ) is filed chronologically per month. All CDJs since the start of the project are kept together in one file. Project payroll is filed together with ICPS staff payroll. All documents appear to be easily retrievable.

VII. TECHNOLOGY DEVELOPMENT AND TRANSFER IN HEALTH: HEALTH MANAGEMENT TRAINING COMPONENT

Implementing Organization:	Association of University Programs in Health Administration (AUPHA)
Cooperative Agreement No:	LAC-0000-A-00-5102-00
AID Project Officer:	Ms. Julie Klement, LAC/DR/HN
AUPHA Project Manager:	Mr. Bernado Ramirez
Project Duration:	August 26, 1985 - January 31, 1990
Amount of Funding:	AID $1,008,984 AUPHA 120,000 --- TOTAL $1,128,984 =========
Method of Payment:	Letter of Credit
Persons Interviewed:	
AID:	Ms. Julie Klement, LAC/DR/HN Ms. Esref Altis, M/FM/PAFD/PAFD
AUPHA:	Mr. Bernado Ramirez, Project Manager Mr. Gary Fillerman, President Mr. David Bergwall, Vice President Mr. Kim Codoley, Business Manager
Report Format:	A. Introduction B. Scope and Objectives C. Methodology D. Organization Overview E. Project Overview F. Conclusions and Recommendations G. Detailed Findings 1. Reporting System 2. Cash Management 3. Budget Amendments 4. Internal Controls 5. Systems and Procedures 6. Filing System

A. Introduction

Price Waterhouse was engaged by the Latin America and Caribbean (LAC) Bureau of the U.S. Agency for International Development to assess the financial reporting systems of several organizations implementing LAC Bureau funded projects. One of the projects selected for review was the Technology Development and Transfer in Health project. This is essentially an umbrella project which has three distinct components, each of which is implemented by a different agency. These components include Health Care Financing, Clinical Training, and Health Management Training. The last component, Health Management Training, is implemented by the Association of University Programs in Health Administration (AUPHA).

An integral part of our review included visits to AUPHA in Arlington, Virginia in October and November, 1987. We would like to thank the AUPHA staff for their assistance and cooperation in conducting this review.

B. Scope and Objectives

This review covers the financial information and reporting systems of AUPHA with the objectives of ascertaining a) compliance with the agreement requirements for reporting and b) the adequacy of information provided in terms of management oversight. The review is also aimed at providing assurance to the AID Project Officer as to the quality and timeliness of financial information supplied by AUPHA as well as to the adequacy of AUPHA's overall internal controls and systems and procedures in this regard. Based on our findings, recommendations will be developed to enhance the information and reporting system by implementing organization as well as to improve the LAC Bureau's contract monitoring system.

Our review does not constitute an audit of AUPHA or the project and therefore an opinion will not be rendered. In addition, this review does not constitute a technical evaluation of the project.

C. Methodology

In order for us to make a meaningful assessment of the financial reporting system, consideration was given to areas directly and indirectly related to the generation of financial information. We designed a comprehensive work program that included an appraisal of the organization's internal controls (segregation of duties and approval of transactions) and systems and procedures (recordkeeping, disbursements, subcontracting, cash management and filing) in order to put our review of the financial reporting system into the proper framework. Also included in the program was a review of the project history as

well as the nature of the organization's relationship with AID and other donors.

In conducting this review, various methodologies such as interviews and records examination were employed in order to assess the grantee's accounting systems and procedures, reporting system and internal controls. Personnel at AID/W involved in project monitoring and management, namely the LAC Project Officer and Financial Analyst at M/FM/PAFD, were interviewed. At AUPHA, we interviewed those staff persons directly involved in the project. This included the Project Manager as well as the Vice President and Business Manager, who are responsible for the financial reporting and recordkeeping. Financial reports prepared and submitted to AID were reviewed with regard to procedures for their preparation, including identifying source information and appropriate approval points, compliance with contract requirements and adequacy of information for management purposes. In addition, certain records and documents maintained for the project were also inspected. Two transactions were examined both to verify the documentation requirements for payment as well as to trace it to the records maintained for the project.

D. Organization Overview

AUPHA is a forty year old association with international affiliates and over thirty years experience in Latin America. The association's purpose is to provide information and technical assistance in health administration education. Such assistance can take the form of establishing a health administration program in a university in the Dominican Republic or responding to an AID request to assess/improve the indigenous health administration training of host country nationals so that they may better manage AID funded health projects. In addition, AUPHA serves as a liaison/contact point for foreign students who come to the U.S. to attend the health administration program at one of the association's affiliate universities. Finally, AUPHA sponsors various publications regarding health administration education, and issues a bimonthly newsletter which covers such topics as scholarships, career opportunities, and new developments in the health programs of its affiliate members.

AUPHA has a total of approximately 15 fulltime staff, which includes one bookkeeper and one Business Manager/Controller. In addition, technical assistance is secured from a large roster of consultants from member organizations. It does not have a formal internal audit group given that the finance/accounting department is composed of a staff of two. AID, one of many donors, represents approximately 10% of total AUPHA resources. The total operating budget for 1986 was $923,676. To put AUPHA's size in perspective - we were informed that the association writes approximately 100 checks per month and its expense files for one fiscal year fit in two drawers.

The association's external auditors, Cohen, Rutherford & Blum, recently completed an annual audit of AUPHA's financial statements. Their findings were not ready for review at the time of our assessment. In reviewing the 1986 audit report, we found an unqualified opinion was rendered.

E. Overview of Project

As indicated in the Introduction, this project has four distinct components. The purpose of this component (hereafter referred to as project) is to increase the utilization and application of management training for health programs in Latin America and the Caribbean. Specific project objectives include:

- to facilitate contacts between consumers of health management training and technical knowledge, such as AID Missions and host country institutions on the one hand, and training centers and technical specialists on the other.

- to increase communications between and among U.S. and LAC health management training centers.

- to assist LAC health management training centers to improve the relevance, applicability, and responsiveness of training offered to LAC needs for health management skills.

The project is funded solely by AID with a contribution from AUPHA. However, activities financed by the project may have more than one funding source. For example, in a recently held workshop sponsored by the project, one of the participants was Chilean. Since AID funds cannot be applied to finance the participation of a Chilean, his expenses were paid for by the Kellogg Foundation.

The project averages three letter of credit withdrawals per quarter and usually maintains a negative cash balance, indicating that AUPHA uses its own funds. The project budget is negotiated annually by the Project Manager. There are two full time staff at AUPHA working on the project, a Project Manager and his assistant. In addition, other AUPHA staff such as the President, Controller and Librarian work part time on the administrative aspects of the project.

AUPHA works closely with the LAC/DR/HN project office in coordinating project activities. Most requests from universities overseas go through the AID Missions to the LAC Bureau, which notifies AUPHA of the needed technical assistance and/or information. If the request is for technical assistance, AUPHA then identifies a consultant from their roster who is best suited to perform the requested assistance. All cables to the Missions must first be cleared with the LAC Bureau. Other correspondence, for example, defining the proposed statement of work, may be with

AUPHA directly, with the LAC/DR/HN Project Officer receiving copies of all correspondence. When on assignment, consultants and AUPHA staff always coordinate with the local health officer(s) in each Mission. Upon completion of each consulting assignment, AUPHA and LAC/DR/HN receive a report summarizing findings and recommendations. Finally, AUPHA and the AID Project Officer have bimonthly meetings to discuss the general progress of the project.

F. Conclusions and Recommendations

1. Reporting System

Our findings indicate that overall, the financial information provided appears sufficient to substantiate progress and is in accordance with contract provisions. Moreover, it appears to be based on a reporting system with adequate controls. However, we believe that certain enhancements to the current reporting system should be made in order to provide the AID Project Officer with a clearer picture of the activities of the project from a financial perspective. In our interviews with the AID Project Officer, she indicated that she would like additional information beyond budget line item.

(a) Copies of the SF 272 and SF 269 should be submitted to the LAC/DR/HN Project Officer as stipulated in the cooperative agreement.

Our findings indicate that currently, AUPHA is not submitting copies of the financial reports prepared for M/FM/PAFD to the AID Project Officer. We recommend that copies be submitted on a timely basis to the LAC Bureau as required in the cooperative agreement. The SF 272 is critical for monitoring the cash management of the project. By receiving the SF 272, the Project Officer can be assured that LAC Bureau funds are properly managed in terms of limiting letter of credit withdrawals up to the amount needed for project activities. Finally, by receiving copies of both reports, the LAC Project Officer can monitor the timeliness of the submissions.

(b) Guidance should be provided to AUPHA with regard to completing the SF 272 report.

Our findings indicate that some errors are made in completing this report and are corrected by the Financial Analyst at M/FM/PAFD before being filed. We recommend that AUPHA be provided additional instructions on how to complete this report. Given that the LAC Bureau should be receiving copies directly from AUPHA, it is critical that they are completed correctly from the outset.

(c) The quarterly project status report should become a formal requirement.

In our review of the cooperative agreement and modifications, we noted that there is no formal requirement for the quarterly report currently being submitted. Rather, this requirement was relayed to AUPHA in a letter from the AID Project Officer. We recommend that this requirement become formalized in an amendment to the cooperative agreement. In this way, should any changes occur in project personnel both in AID or AUPHA, the requirement will be documented as reference for the new personnel.

(d) The financial report of expenses included in the project status report should be expanded.

Currently, the report submitted to AID is sufficient to substantiate progress in that one can see the amount spent versus the amount budgeted for the four budget line items included in the original agreement. However, from a project management perspective, it is inadequate in that no information on activities funded within each line item is presented. We recommend that the detailed report currently prepared for internal use be submitted to AID to supplement the financial summary prepared. This report, which differentiates between CA and LAC funds, provides essential information on items/activities funded, particularly with regard to workshops and seminars.

2. Budget Amendments

(a) Modifications to the annual budgets should be formalized.

Our findings indicate that changes to the budget are done annually on an informal basis, based on monies left over from prior project year(s), new activities which will be occurring and more realistic estimates on project expenditures. We recommend that once the changes have been agreed upon, they should be formalized through an official memorandum which both AID and AUPHA have endorsed. Revising budgets on annual basis is essential for sound management of project funds. However, unless it is formalized, comparing actual expenditures to budgeted amounts on an annual basis is difficult. Documenting such changes is critical not only for financial management purposes but to facilitate the transition when a new AID Project Officer is assigned to the project.

3. Internal Controls

Our findings indicate that the internal controls in place at AUPHA appear adequate. However, we recommend that AUPHA strive to ensure that all invoices to be processed for payment have the

appropriate initials authorizing payment.

4. Systems and Procedures

Our findings indicate that AUPHA's overall systems and procedures are adequate from the standpoint of accountability. We recognize that as a small association, procedures tend to be less formal. However, we believe that some improvements could be made.

(a) A standard form should be used as the posting medium to the accounts.

The current recordkeeping practice uses invoices and expense reports as posting mediums to the accounts. We recommend that a standard form be designed to be used as a posting medium for each project transaction. Said form should include the account code to be charged and should be sequentially numbered. Tracing of transactions will be facilitated if standard forms are used and sequentially numbered.

(b) Written policies and procedures should be finalized.

We are aware that the newly hired Business manager will be formalizing AUPHA's general policies and procedures. We recommend the timely completion of this activity.

(c) A standard contract for consulting assignments should be used.

Currently, there are no formal contracting procedures when hiring a consultant. We recommend that a standard contract for consulting assignments be designed and used for all such engagements to provide AUPHA with a formal and binding document for services being contracted from contractors/consultants.

G. Detailed Findings

1. Reporting System

Under the cooperative agreement, AID requires the following reports:

o Financial Reports
  - Federal Cash Transaction Report (AID form 272)
  - Financial Status Report (AID form 269).

a. Financial Reports

The Federal Cash Transaction report (SF 272) and the

Financial Status report (SF 269) are standard requirements for cooperative agreements funded under a Letter of Credit. They are to be prepared on a quarterly basis and submitted no later than 15 days (for the SF 272) or 30 days (for the SF 269) after the end each quarter to AID's Office of Financial Management, Program Accounting and Finance Division (M/FM/PAFD). According to the cooperative agreement, five copies of these reports are to be forwarded by AUPHA to LAC/DR/HN. Our findings indicate that since the start of the reporting period, these reports have been submitted to M/FM/PAFD together and on schedule. However, our findings also indicate that LAC/DR/HN does not have a full set of these reports.

The SF 269 is completed according to the accrual basis of accounting and differentiates LAC funds from CA funds as stipulated in the agreement and as required by M/FM/PAFD. In reviewing AUPHA's file at M/FM/PAFD, we found that all of the reports had the required LAC/DR/HN Project Officer approval. However, we did note that in a number of cases, the Project Officer did not retain the "project office copy" as is required but returned it to M/FM/PAFD.

The SF 272 reports are completed in accordance with instructions with the exception of "cash on hand" in several reports because of a misunderstanding on the part of AUPHA on how to complete this entry. In these instances, the Financial Analyst (F.A) has corrected the reports before filing them.
This report is critical for monitoring cash advances. Since a copy of this report should be submitted by AUPHA to the LAC Project Officer, it is important that it be completed accurately by AUPHA. Some guidance should be provided to AUPHA in this regard.

The F.A. responsible for approving AUPHA's letter of credit withdrawals and monitoring the financial reporting has had no problems with the association. Only on one occasion was a request for withdrawal of funds denied (withdrawal no.7), the reason being that due to an oversight, the quarterly reports had not been submitted. The F.A. informed the association and soon thereafter received the report and approved the request for funds.

b. Project Status Report

The project status report, submitted quarterly to LAC/DR/HN, is not required in the cooperative agreement or modifications but was requested of AUPHA in a letter from the AID Project Officer. It is prepared in accordance with the requirements of the LAC Bureau. The report presents the financial status as well as accomplishments and progress of the project to date. The financial status portion presents the annual budget, the expenditures for the reporting period and the cumulative amount.

Expenditures are reported according to budget line item per the cooperative agreement, differentiating LAC and CA funds. Our findings indicate that this report has been submitted regularly and on time since the start of the project.

In the beginning of the project, a more detailed financial report of expenses was included in the progress report submitted to LAC/DR/HN. It showed expenditures per account category for each budget line item. This report was prepared both for internal management use as well as to generate summary totals per budget line item. After the second quarter, AUPHA was informed by the AID Project Officer that only summary information by budget line item was needed. As a result, AUPHA continues to prepare a more detailed report for internal management use but submits only summary report to LAC/DR/HN. This summary report shows totals for personnel expenses, workshops and seminars, information network and indirect costs.

Modification 1 to the Cooperative Agreement requires that AUPHA break down budget line items by region, e.g. LAC (Latin America and Caribbean) and CA (Central America). Expenses incurred for the project are charged to LAC or CA using a 60/40 cost sharing or by direct identification. For those costs that are readily traceable to a region, for example, assisting a university in the Dominican Republic, the appropriate region's account is debited. For those costs that apply to both regions, for example, project administrative costs such as salaries, wattsline and reproduction, 60% is charged to the LAC accounts and 40% to the CA accounts.

Both the financial reports submitted to M/FM/PAFD and the financial report of expenditures included in the project status report are currently prepared by the Vice President in charge of Finance and Administration and reviewed with the Project Manager before being forwarded to AID. In the future, the bookkeeper will prepare the reports, which will then be reviewed first by the Controller/Business Manager for compliance with the cooperative agreement and then by the Project Manager for reasonableness. The financial reports are certified by the President, Vice President or Controller before being submitted to AID. The non-financial information included in the quarterly progress report is prepared by the Project Manager.

The financial reporting is based on AUPHA's automated accounting records. At the start of the project, AUPHA had assigned expense accounts under each budget line item. At the end of each quarter, total expenses for each account within the budget line item are taken from the general ledger and entered manually into a Lotus spreadsheet. This data is then manipulated to create both the two financial reports required by M/FM/PAFD (SF 269 and SF 272) and the financial status report included in the quarterly progress report. As a result, disbursements

reported on the SF 269 and SF 272 submitted to M/FM/PAFD always equal those reported to the LAC Bureau. As indicated below, AUPHA's recordkeeping practices and documentary requirements for project disbursements including required internal approvals gives an adequate level of validity with regard to the source data of the financial reports. Refer to Exhibit 1 for a flowchart on recordkeeping and financial reporting for the AID project.

As part of the system enhancements and for increased accountability, the Business Manager plans to prepare the detailed report on a monthly basis so that the Project Manager can immediately flag any deviations from the budget and cooperative agreement.

2. Cash Management

AUPHA follows the fund accounting system. Funds are segregated into restricted and unrestricted funds which are subclassified into various accounts as to type of donor.

We were informed that AUPHA makes one withdrawal from the letter of credit per month based on the funds requirement for the project. In reviewing the SF 272 report submitted to M/FM/PAFD, cash on hand consistently shows a negative balance at the end of each reporting period. According to the Vice President of AUPHA, withdrawals are limited to avoid having excess cash on hand and therefore be penalized by paying interest on the cash held. As a result, AUPHA funds most of the project activities from its own resources and uses the letter of credit to reimburse itself for expenses incurred.

Cash advances given to the Project Manager which have not been liquidated are not considered a project expense but rather, represent AUPHA's own operating expense funds until such time as their liquidation.

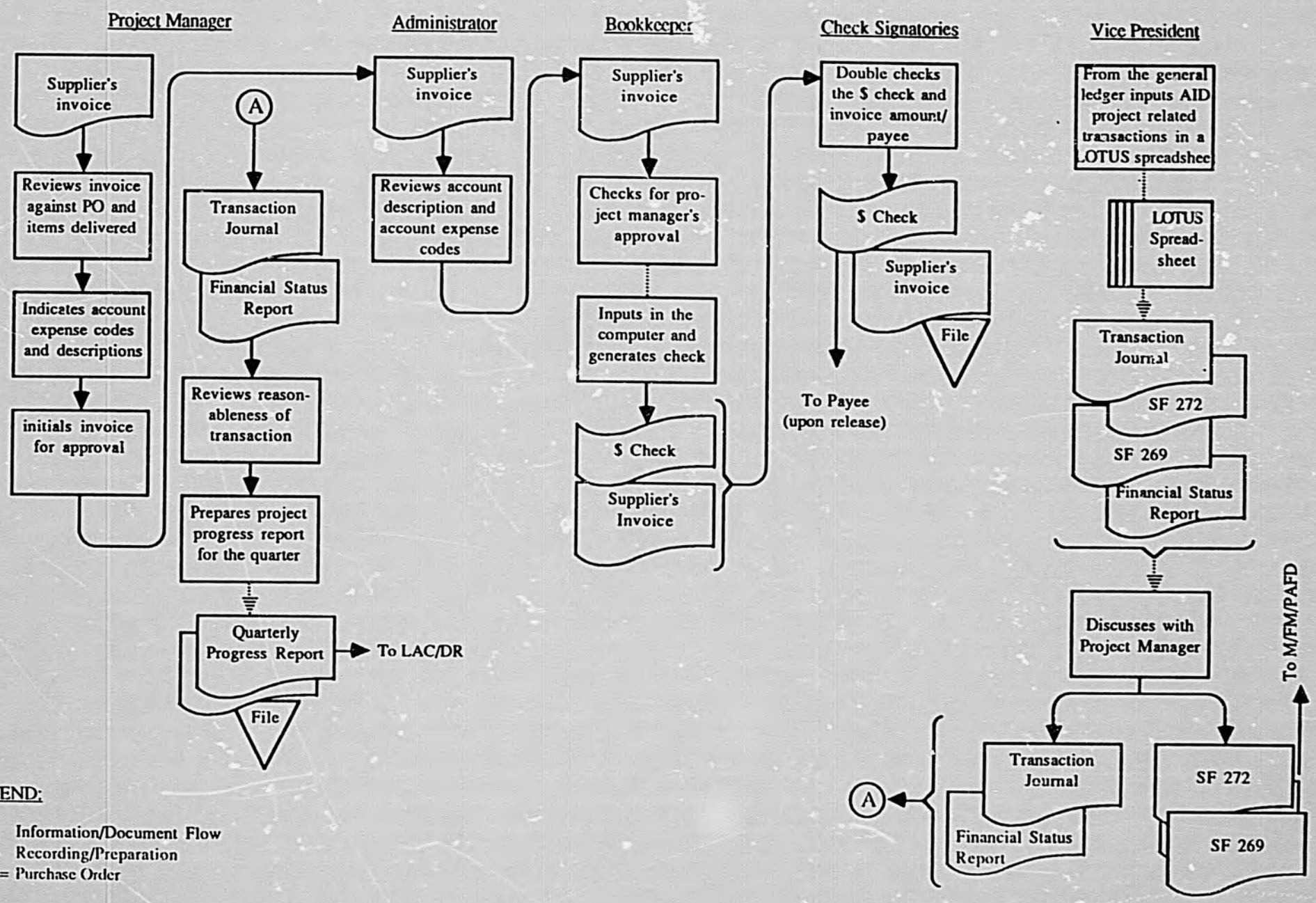
3. Budget Amendments

Our findings indicate that changes/modifications in the budget are not covered by written documents amending said budget but are informally agreed upon with the AID Project Officer. Agreement Modification No. 1 shows that budgeted expenditures for the project's 2nd year totals $254,648. However, the financial report for the quarter ending June 30, 1987 indicates the second year budget to be $284,800. According to AUPHA's Project Manager, annual budgets for the second, third and fourth years were modified to reflect unspent funds originally budgeted for the first year. In addition, funds from the fourth year budget were reallocated to the second and third year budgets. These changes were agreed to verbally by the Project Managers of AID and AUPHA. As a result, there is no documentation to support

AUPHA

Exhibit 1

FLOWCHART ON RECORDKEEPING AND FINANCIAL REPORTING



LEGEND:

—— Information/Document Flow

..... Recording/Preparation

PO = Purchase Order

these budget modifications. In an environment where AID Project Officers frequently are reassigned to new projects, such documentation would be useful for understanding the project history and changes.

4. Internal Controls

Although AUPHA is a small organization which often results in more informal procedures, its overall system of internal controls is properly in place. Based on our review, the following observations were noted:

a. Segregation of Duties

Recordkeeping, transaction approval and report preparation are segregated. Recordkeeping is handled by the bookkeeper based on documents approved by the appropriate Project Manager. As indicated above, AID report preparation is currently the responsibility of the Vice President who is in charge of AUPHA Finance and Administration. Once completed, the reports are reviewed with the Project Manager before they are submitted to AID.

A recently hired Business Manager/Controller will be handling the reporting aspect in the future reporting periods in place of the Vice President, who took over this responsibility when a former employee left the association.

b. Approval of Expenses

According to the persons interviewed, documents such as vendors' invoices and timesheets of staff involved in the AID project are subject to review and approval by the Project Manager. The Project Manager also indicates on the documents the account code(s) to be charged for a given expense. This ensures that the appropriate account, for example LAC workshops, will be properly debited. Expenses incurred by the Project Manager are in turn subject to approval by AUPHA's President. We were informed that these expense approval procedures are used for all AUPHA activities.

A travel voucher selected for inspection does not include the signature/initials of the Project Manager indicating approval. It does, however, show the account codes to which the expenses should be charged. The voucher includes multiple account codes to differentiate between LAC (Latin America and Caribbean) and CA (Central America) funds as well as between AID and other donor funds.

5. Systems and Procedures

a. Recordkeeping

According to the 1986 report by the AUPHA's external auditors, the accounts of the association are maintained in accordance with the principles of fund accounting, which entail that resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Moreover, separate accounts are maintained for each fund.

AUPHA's books of accounts such as the general ledger, purchases journal and check register are automated using the "Open Systems Accounting" software package. Accounting records are kept according to the accrual basis of accounting. The transactions coding system provides an identification (ID) number for each donor as well as program type (eg restricted versus general funds) which facilitates identifying transactions per donor. AUPHA has approximately 26 different funding sources resulting in over 700 separate accounts. For purposes of tracking AID project-related transactions, a project ID number was assigned and special account codes were set up in AUPHA's chart of accounts in order to accommodate the LAC Bureau's requirement for separate reporting of LAC funds and CA funds.

In the process of our review, we noted that vendors' invoices are used directly as the posting medium to the accounting records. Expense codes to which the transactions are charged are indicated on the invoice. Once a check payment has been prepared, the check number and date are also indicated on the invoice. However, unless one is familiar with the system, it is difficult to ascertain that the number indicated is a check number since there is no identification in that regard. No standard forms are used as a posting medium to the accounting records.

At present, AID project-related transactions are entered into the automated system according to account number. As indicated above, for purposes of preparing the financial reports required by AID, the information is then entered into a Lotus spread sheet. Once expenditures are entered according to budget line item and funding source, the summary level and required financial reports are generated in the spreadsheet.

Concerning controls in data entry, the accounting software package in use has various inherent controls. Before accepting a new entry, the program checks to be sure that the vendor code and corresponding invoice number are unique. This ensures that there will not be duplicate entries. In terms of procedural controls, the Business manager reviews the entries of the bookkeeper using printouts of transactions entered.

AUPHA is in the process of expanding and modifying their existing recordkeeping and financial reporting system to create additional links between the general ledger and other accounting journals and to incorporate budgeted amounts per budget line item in order to automatically flag any disbursements in excess of budget levels. In addition, the system will be able to generate reports on a per project and account basis, thereby eliminating the necessity of manually creating reports using the Lotus software. The estimated timetable for these system enhancements is December, 1987.

Refer to Exhibit 1 for a flowchart on recordkeeping and financial reporting for the AID project.

b. Method Of Disbursement

AUPHA disburses project funds either by direct payment to the vendor/supplier or through cash advance for travel per diems and other expenses. Cash advances are subject to liquidation. One transaction of each disbursement type from a recent workshop was reviewed to assess the adequacy and appropriateness of supporting documentation.

For direct disbursement, we examined a travel agency invoice for the cost of travel of participants attending this workshop. The disbursement, amounting to $21,044.26, was supported by the original itemized invoice listing all of the participants for whom tickets were purchased.

For cash advances, a liquidation statement submitted by the Project Manager was examined. The liquidation was supported by acknowledgement receipts (ARs) for per diems which were duly signed by the workshop participants. Each AR indicates the participant's name, company/organization, address and amount received. Other documents attached to the liquidation statement were hotel bills, various miscellaneous receipts, and an itemization of expenses not supported by receipts.

c. Policies and Procedures

At present, AUPHA does not have any written policies and procedures regarding accounting and internal controls. Policy information tends to be relayed verbally. Because the association is small in terms of manpower, it allows them to operate in a less formal manner without sacrificing controls. Moreover, in an environment of only 2 to 3 staff persons involved in processing/reviewing financial data, information dissemination is easily achieved informally.

One of the responsibilities of the newly hired Business Manager will be to develop written procedures regarding

accounting and internal controls as well as policies surrounding the hiring of consultants.

d. Subcontracting

AUPHA does not subcontract work to be done on the AID project per se. However, they do hire consultants on a task order basis, performing such activities as a review of the health administration facilities/curriculum at a given university. All consultants retained are subject to AID's approval. We noted that there are no contracts or documents prepared to formalize the agreements between AUPHA and the consultant. Except for the proposed budget including the consultant's fees, and the Contractor Employee Biographical Data Sheet which is duly signed by the prospective consultant, no other documentation is on file at AUPHA. However, as AUPHA generally hires consultants who are personally known to the Association (usually from member organizations), AUPHA does not believe a formal agreement is necessary.

AUPHA's subcontracting overall is very limited. As a result, no written guidelines or formalized procedures in this regard have been developed. Regarding disbursements to consultants, AUPHA requires airline ticket stubs and receipts of expenses greater than $25 in order to liquidate advances.

We reviewed one transaction covering expenses incurred by a consultant. The supporting documentation included a AUPHA check request form indicating the name of the consultant, the amount, the account code, date of request and was signed by the Project Manager. In addition, it was duly stamped as to the date paid. Also submitted was an AUPHA expense voucher prepared by the consultant, supported by various receipts and invoices such as hotel bills, airlines tickets and other miscellaneous receipts.

6. Filing System

Accounting documents (e.g. invoices), whether for the AID project or other activities, are filed together by vendor/payee. A separate file is maintained for each vendor/payee and documents are fastened together to avoid getting lost. These documents are not controlled/coded numerically upon receipt although the vendor code is indicated on each invoice. As a result, it is easy to determine if a check payment has been prepared for a particular invoice by referring to the purchases journal and tracing the vendor code, amount and invoice number.

To retrieve documents for the AID project, the document must be traced from the Purchases Journal using the Vendor ID and the total amount of the transaction.

VIII. MALARIA CONTROL AND ESSENTIAL DRUGS PROJECT

Implementing Organization:	Pan American Health Organization (PAHO)
Grant Number:	LAC-0136-G-00-5329
AID Project Officer:	Ms. Paula Feeney, LAC/DR/HN Ms. Julie Klement, LAC/DR/HN
PAHO Project Manager:	Ms. Irene Klinger
Project Duration:	March 30, 1985 to March 31, 1989
Amount of Funding:	AID $7,860,000
Method of Payment:	Letter of Credit
Persons Interviewed:	
AID:	Ms. Julie Klement, LAC/DR/HN Mr. Al Meeks, M/FM/PAFD Mr. James Saunders, M/FM/PAFD
PAHO:	Dr. Irene Klinger, Project Manager Mr. John Hunter, Chief of Accounts Mr. Fred Burgos, Finance Officer Mr. Jay Edison, Legal Counsel
Report Format:	A. Introduction B. Scope and Objectives C. Methodology D. Project Overview E. Conclusions and Recommendations F. Detailed Findings 1. Reporting System 2. Cash Management

A. Introduction

Price Waterhouse was engaged by the Latin America and Caribbean (LAC) Bureau of the U.S. Agency for International Development to assess the reporting systems of several organizations implementing LAC Bureau funded projects. One of the projects selected for review was the Malaria Control and Essential Drugs project, implemented by the Pan American Health Organization (PAHO).

An integral part of our review included visits to PAHO in Washington, D.C. in October and November, 1987. We would like to thank the PAHO staff for their assistance and cooperation in conducting this review.

B. Scope and Objectives

This review covers the financial information and reporting systems of PAHO with the objectives of ascertaining: a) compliance with the agreement requirements for reporting and b) the adequacy of information provided in terms of management oversight. In addition, the review is intended to provide assurance to the AID Project Manager as to the quality and timeliness of financial information supplied by PAHO as well as to the adequacy of PAHO's overall internal controls and systems and procedures in this regard. Based on our findings, recommendations will be developed to enhance the information and reporting system by implementing organization as well as to improve the LAC Bureau's contract monitoring system.

Our review does not constitute an audit of the project or PAHO and therefore an opinion will not be rendered. In addition, this review does not constitute a technical evaluation of the project.

C. Methodology

In the course of this engagement we assessed two projects that are implemented by PAHO: the Malaria Control and Essential Drugs project and the Child Survival/Accelerated Immunization project. As a result, our findings as related to overall systems and controls are identical for both. We have therefore focused this portion of our report on the issues pertaining directly to the Malaria Control and Essential Drugs project, namely, an overview of the project and an assessment of the financial reporting and cash management for the project including conclusions and recommendations in this regard. Our information is based on interviews and review of the reports submitted. We have included in Section IV, the Child Survival/Accelerated Immunization Project, our findings with regard to PAHO's internal controls and systems and procedures. Also included in Section IV is a detailed description of the methodology used and limitations encountered during our assessment of PAHO as well as an overview of this international organization.

D. Project Overview

The Malaria Control and Essential Drugs project has two distinct components implemented by separate technical units within PAHO. The objectives of the malaria control component are to: a) strengthen malaria control programs, particularly in Honduras, El Salvador, Guatemala and Belize; and b) establish and institutionalize a Central American regional training and operations research program for mosquito born diseases. The objectives of the essential drugs component include: a) to improve essential drugs programs in Central American Ministries of Health and Social Security Programs; and b) to establish and institutionalize Central American regional training programs in procurement, distribution, quality control and utilization of essential drugs.

The project is funded by AID through an additional grant to PAHO's existing letter of credit with the Agency. PAHO's financial contribution is through the subsidization of its overhead rate for the project. (PAHO's officially approved overhead rate is 33%; for this project, it is budgeted at 13%.) PAHO's contribution for the first year of the project was estimated at $436,470.

As mentioned, there are two technical units at PAHO responsible for project implementation. Their activities are approved and supervised by an overall Project Manager, who is assigned in PAHO's management unit. This organizational setup is the first of its kind for PAHO, according to the Project Manager. It was designed to accommodate the AID/LAC Bureau's requirement that one person assume overall responsibility for the project and serve as liaison with AID.

The Project Manager works closely with each technical unit and is responsible for authorizing all obligations and approving all disbursements. Action for a specific activity, such as hiring a short term consultant, can originate in the management unit, one of the technical units, or in a PAHO field office. In all cases, the Project Manager has the final clearance before the consultant is retained. Once the consultant has completed his/her assignment and submitted the final report, the Project Manager prepares an official memo to personnel or the contracting office authorizing payment. For procurement of equipment or supplies, the technical units and field offices must process their requests through the Project Manager, who completes a purchase order and submits it to the Finance office to record an obligation. Refer to Section IV, Part H.4.b for a description of PAHO's standard obligation/disbursement procedures.

The Project Manager maintains her own set of project files by activity. These files include documents such as copies of contracts, purchase orders, memorandum approving payment, and consultants' reports. We did not examine these files since we

would not have been able to trace any of the expenses indicated to PAHO's official financial records because of its status an international organization. Moreover, because the reports prepared by the Finance Office and those prepared by the Project Manager do not provide a breakdown by activity, it would have been impossible to compare by activity expenses incurred versus reported.

PAHO's operating relationship with AID has changed during the life of the project. In the beginning of the project, there had been frequent (daily) contact between the AID Project Officer and the PAHO Project Manager in order to develop project objectives, plans of action, operating procedures and the like. Since the project has matured, contact with AID usually occurs when a particular problem arises. However, in addition to receiving a quarterly project status report, AID participates in the design of the annual work plan and budget, and is a member of the Technical Advisory Committee (TAC) for the malaria component. AID also approves candidates proposed by PAHO for key project positions.

According to the PAHO Project Manager, the coordination and communication between the AID Missions and PAHO field offices in regards to this project vary. However, the Project Manager indicated that she provides the LAC Bureau with seven copies of the quarterly progress report so that the Bureau may distribute one to each of the Missions in the region.

A midterm evaluation required under Grant Amendment No. 2 is currently being performed (October, 1987). The PAHO Project Manager designed the methodology and submitted it and a list of the proposed evaluation team to AID for approval. The evaluation will cover each project component as well as overall project management. It does not appear that project financial management will be reviewed in depth.

E. Conclusions and Recommendations

Our findings indicate that the financial reports submitted are generally completed according to instructions and are in compliance with grant requirements. In addition, the financial information provided appears to be based on a recordkeeping and financial reporting system that has adequate controls. However, two principal problems uncovered include the extreme tardiness of report submissions and the fact that the SF 272 is submitted quarterly rather than monthly. In terms of the untimeliness of PAHO submissions, PAHO has indicated they are working on improving their reporting system.

Our recommendations with regard to the financial reporting are as follows:

(a) Copies of the individual SF 272 and SF 269 reports submitted to AID/M/FM/PAFD should also go to the LAC Bureau.

The SF 272 and SF 269 and accompanying SF 1035 are currently submitted to the LAC Bureau although not required under the grant agreement. We recommend that the grant agreement be modified to formally require the submission of the individual SF 272 and the SF 269 and accompanying detail to the LAC Bureau. This will provide assurance that the AID Project Officer always receives the reports, enabling him/her to monitor the timeliness of the submissions. M/FM/PAFD has indicated that they do not monitor each organization's submissions but only become aware of what reports have been received when the organization requests funds. Thus the Project Officer must assume responsibility for ensuring that the reports are submitted on a timely basis.

We also noted that four of the six SF 269 reports submitted do not have the required Project Officer approval. It is unclear whether the approval form has been misfiled or whether approval was never obtained. By receiving copies of the reports from PAHO, the Project Officer can then expect these reports from M/FM/PAFD and follow-up if they have not been received.

(b) An individual SF 272 for the project should continue to be prepared by PAHO.

Currently, PAHO prepares an individual SF 272 for the project on a quarterly basis although M/FM/PAFD only requires a consolidated one for all AID grants to PAHO. We recommend that PAHO continue to prepare an individual SF 272. Such a report enables the LAC Bureau Project Officer to assess the cash management of the project, as it indicates total cash received, disbursements and remaining cash on hand. This is not an additional burden to PAHO, since they are currently preparing this report each quarter as the basis for the consolidated one.

(c) A consolidated SF 272 should be submitted on a monthly basis.

AID letter of credit regulations require that the SF 272 be submitted on a monthly basis by recipients receiving more than one million dollars per year. Currently, PAHO prepares and submits a consolidated SF 272 on a quarterly basis although its letter of credit withdrawals are greater than one million dollars per year. We recommend that PAHO be notified of this requirement and that it be enforced. Although we recognize that M/FM/PAFD has not reminded PAHO of this requirement because as it is, the quarterly reports are submitted months after they are due, we do not believe that AID regulations should be ignored because PAHO

does not honor the date reports are due. Until such time as this letter of credit regulation is officially modified, PAHO should be required to submit an SF 272 on a monthly basis.

(d) PAHO's management and financial units should prepare their respective financial reports covering the same period.

Currently, the reports prepared by the financial unit do not reconcile with those prepared by the management unit since the reporting period is not the same. We recommend that both units use identical reporting period start and end dates in order to facilitate comparison of said reports. Using the same reporting period will provide a means for the PAHO Project Manager to reconcile her report with those of the financial unit. In addition, it will facilitate the review process of these reports by the AID Project Officer.

(d) The summary of expenditures in the project status report should be expanded.

Currently, the summary of expenditures included in the project status report shows total expenses for each component of the Project: Malaria Control, Essential Drugs and Management, and includes actual expenditures for previous years and actual and accrued expenditures (together) by quarter for the current year. From a financial and project management perspective, the information provided is inadequate. We recommend that the report be expanded to include expenditures by budget line item within each component. In addition, actual and accrued expenditures should not be combined but should be reported in separate columns. Finally, the budgeted amount per line item should be indicated. Financial information by budget line item is the minimum needed by a Project Officer to adequately monitor project funds. Providing budgeted information enables the AID Project Officer to compare actual to budgeted and to see at a glance if the project is moving as expected and if expenditures are within the original amount authorized.

F. Detailed Findings

1. Reporting System

Reports required under the grant agreement are as follows:

- o Financial Reports
  - -Federal Cash Transaction Report (SF 272)
  - -Financial Status Report (SF 269)
- o Project status report

In addition, the grantee is required to prepare and submit an annual workplan including a budget to AID for approval.

a. SF 272 and SF 269 reports

The Financial Status Report (SF 269) and the Federal Cash Transactions Report (SF 272) are to be submitted quarterly, no later than 30 days and 15 days, respectively, at the end of each quarter to AID's Office of Financial Management, Program Accounting and Finance Division (M/FM/PAFD). Our findings indicate that these reports are received by M/FM/PAFD on an average of three months after the close of the quarter. As M/FM/PAFD does not monitor the receipt of the reports on a regular basis, it is made aware that reports are overdue only when PAHO submits a request for funds from its letter of credit. At that time, M/FM/PAFD reviews PAHO's file and if reports have not been submitted, M/FM/PAFD will contact PAHO to request the reports and will not release funds until they are received.

According to PAHO's Chief of Accounts, these reports are prepared by the accounting technician, reviewed by the Chief of Accounts and forwarded to the Project Manager for approval. In our discussions with the Project Manager, she indicated that she does get copies of the reports; however, many times they are given to her after the reports have been submitted to AID. The reports are based on the project's expenditure record maintained by the Office of Finance. This record shows the project title and code, nature of expenditures incurred, amounts obligated, allotted, disbursed and unobligated balance. Refer to <u>Section IV.H.4.a</u> for a discussion of PAHO recordkeeping.

The SF 269 and SF 272 reports are submitted with an SF 1035 which itemizes expenditures by project component and by budget line item. Also included in the SF 1035 is the approved budget amount, cumulative incurred cost for the prior period, incurred cost for the current period, and cumulative cost to date. As PAHO is funded under a grant agreement, it is not required to submit the 1035, itemizing by budget line item. However, it provides useful information and M/FM/PAFD is appreciative that PAHO submits this form. We compared the expenditures recorded in these three reports from project inception through March 31, 1987 and found no discrepancies.

In reviewing M/FM/PAFD's files of all of the reports submitted by PAHO for this project to date, we discovered the following:

- o PAHO submits a separate SF 272 for this project although only a consolidated one for all grants to PAHO is required.

The grant agreement indicates that the SF 272 is to be completed and submitted for the project. However, M/FM/PAFD only requires a consolidated SF 272 which shows period cash transactions for all AID grants received by an organization. According to M/FM/PAFD, they have informed PAHO verbally that

only a consolidated SF 272 report is required.

o Some discrepancies were noted in the SF 272 reports for the project under review:

a) the ending cash balance reported for the quarter ending 9/30/85 did not equal the beginning cash balance of the next quarter;

b) the reports for the two quarters ending March 30, 1986 and June 30, 1986 were combined in one report;

c) in the report for the period ending June 30, 1986, the gross disbursements indicated did not equal the net disbursements when in fact there were no deductions from gross disbursement;

The voucher examiner responsible for reviewing the project's reports was unable to explain the above deviations. Since M/FM/PAFD is only interested in the consolidated SF 272, their review of the separate one for this project is very limited.

o PAHO withdrew more than one million dollars in 1986.

AID's letter of credit requirements for grant recipients indicate that if the recipient receives more than one million dollars per year, it is required to submit the SF 272 on a monthly basis. We were informed by M/FM/PAFD that they have not required PAHO to follow this regulation since they encounter enough problems getting them to report on a quarterly basis.

o The most recent SF 269 on file at M/FM/PAFD is for the period ending March, 1987.

Our findings indicate that because of staffing limitations, the SF 269 reports are not processed for many weeks after they have been received. However, this does not adequately explain why the June report is not on file.

o Four of the six SF 269 reports on file did not have the required AID Project Officer approval.

The reports for the quarters ending 9/30/85, 12/31/85, 6/30/86 and 9/30/86 did not have the two way memorandum indicating Project Officer approval attached as is the standard operating procedure. In discussing this with M/FM/PAFD, they indicated that perhaps the memorandums had not been filed yet or had been misfiled.

Although not required in the grant, PAHO submits copies of these reports to the LAC Bureau.

b. Project status report

The project status report is to be submitted quarterly to AID. Our findings indicate that it is submitted on a timely basis. The technical portion of the status report is very informative. Differentiating between the Malaria Control and the Essential Drugs components, the report discusses each project activity which took place and references it by the activity number in the annual workplan. The information presented includes a description of the activity, the country where it took place, and where applicable, the name of the short term consultant retained.

The summary of expenditures included in the project status report has gone through numerous modifications since the start of the project. Exhibit 1 shows the original expenditure report submitted to AID for the Malaria Component. The report was quite detailed, showing budgeted and actual expenditures per budget line item and per activity as defined in the work plan. This report had to be created manually since PAHO's automated system did not have the capacity to report by activity. PAHO was informed by the AID Project Officer at that time that AID did not require or desire the detail shown in this report. As a result, the report was modified to reflect the one shown in Exhibit 2. This report showed new obligations and disbursements against old obligations per budget line item for each component. It no longer included a breakdown by activity. However, once again, PAHO was informed that this detail was unnecessary and Exhibit 3, the current report, was designed.

The current summary of expenditures does not indicate expenses per budget line item but shows total expenses for each component of the project: Malaria Control, Essential Drugs and Management (project administration). The report includes actual expenditures for previous years and accrued expenditures (actual disbursements and unliquidated obligations) by quarter for the current year. The report no longer indicates budgeted versus actual expenditures nor information by activity. From a project and financial management perspective, the current summary of expenditures is inadequate.

The report is prepared by the Project Manager or her assistant. It is based on information obtained from the project's expenditure record maintained by PAHO's Office of Finance. Using the expenditure record, the Project Manager prepares a detailed report which is then summarized for AID. The Project Manager submits seven copies to the LAC Bureau so that the Project Officer can in turn forward one to each AID Missions in the region.

Regarding the possibility of reporting expenditures on a country basis, the Project Manager indicated that it would not be feasible for this project since it is regional in nature. Although project events will take place in a given country, for

example a course held in Honduras, it includes participants from the entire region. However, she indicated that equipment purchases are easily tracked by country and this information could be provided to AID upon request.

According to the PAHO Project Manager, the summary of expenditures which she prepares does not tally with the totals reported by the Office of Finance because their reporting periods differ by a few weeks.

2. Cash Management

In Section IV.H.2 we discuss PAHO's cash management procedures overall. Concerning this AID project, PAHO is advancing huge sums of money to the project, which is indicated by the large negative balance of cash on hand at the end of each reporting period. For example, its ending cash balance in June 1986 was $(537,663); in September 1986, $(132,514); in December 1986, $(80,771); in March 1987, $(249,443); and in September 1987, $(138,236). From AID's perspective, these large balances are not a problem since they indicate that PAHO is using its own funds and requesting drawdowns from the letter of credit on a reimbursement basis. However, from PAHO's perspective, it indicates that the organization is not taking advantage of the availability of AID resources. Moreover, in our interview with the Chief of Accounts, he indicated that PAHO was not supposed to use its own resources to fund projects. However, we are not familiar with PAHO's bylaws in this regard.

IX. COOPERATIVE NEIGHBORHOOD IMPROVEMENT AND JOB PROGRAM FOR CENTRAL AMERICA

Implementing Organization: Cooperative Housing Foundation (CHF)

Cooperative Agreement No.: LAC-0131-A-00-5046-00

AID Project Officer: Alex Sundermann

CHF Project Manager: Theodore Priftis

Project Duration: March 31, 1985 to December 31, 1989

Amount of Funding: $12,749,000

Method of Payment: Letter of Credit

Persons Interviewed:

AID: Alex Sundermann, Project Manager
Raouf Yousseff, former Project Manager

CHF: Theodore Priftis, Project Manager
William James, Controller
Cathy Rocne, Admin. Officer
Edison Molina, Asst. Controller
Ada Castillo, Project Staff Accountant
Rosemary Bedosky, Accountant
Vertina Johnson, Accountant
Gloria Carillo, Accountant

Report Format:

A. Introduction
B. Scope and Objectives
C. Methodology
D. Organization Overview
E. Project Overview
F. Conclusions and Recommendations
G. Detailed Findings
   1. Reporting System
   2. Cash Management
   3. Internal Controls
   4. Systems and Procedures
   5. Filing

A. Introduction

Price Waterhouse was engaged by the Latin America and Caribbean (LAC) Bureau of the U.S. Agency for International Development to assess the financial reporting systems of several organizations implementing LAC Bureau funded projects. One of the projects selected for review was the Cooperative Neighborhood Improvement and Job Program for Central America implemented by the Cooperative Housing Foundation (CHF).

An integral part of our review included visits to CHF headquarters in Washington, D.C. in November 1987. We would like to thank the CHF staff for their assistance and cooperation in conducting this review.

B. Scope and Objectives

This review covers the financial information and reporting system of CHF with the objectives of ascertaining a) compliance with the grant requirements for reporting and b) the adequacy of information provided in terms of management oversight. The review is also aimed at providing assurance to the AID Project Officer as to the quality and timeliness of financial information supplied by CHF as well as to the adequacy of CHF's overall internal controls and systems and procedures in this regard. Based on our findings, recommendations will be developed to enhance the information and reporting system by implementing organization as well as to improve the LAC Bureau's contract monitoring system.

Our review does not constitute an audit of the project or CHF and therefore an opinion will not be rendered. In addition, this review does not constitute a technical evaluation of project.

C. Methodology

In order for us to make a meaningful assessment of the financial reporting system, consideration was given to areas directly and indirectly related to the generation of financial information. We designed a comprehensive work program that included an appraisal of the organization's internal controls (segregation of duties and approval of expenses) and systems and procedures (recordkeeping, disbursements, subcontracting, cash management, and filing) in order to put our review of the financial reporting system into the proper framework. Also included in the program was a review of project history as well as the nature of the organization's relationship with AID and other donors.

In conducting the review, various methodologies for fact-finding were employed. These included interviewing of staff at

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CHF headquarters both directly and indirectly involved in the project, inspection of accounting records at CHF headquarters, tracing of five sample transactions as to documentation requirements and review of audit reports of operations/management reviews of CHF country offices performed by outside auditing firms. In addition, we sampled three loan agreements and two grant agreements between CHF and its borrowers/beneficiaries, and three short-term consultant contracts and two subcontracts, all of which were funded under the AID cooperative agreement, in order to review the provisions contained therein as well as to validate the information provided by CHF personnel interviewed.

In terms of reporting, we reviewed and analyzed the financial reports submitted to M/FM/PAFD and the project status reports and accompanying financial information provided to the LAC Bureau to determine compliance with the requirements in the cooperative agreement as well as the adequacy of information provided to AID. As the project is implemented overseas, we also reviewed selected financial/cash reports submitted by the CHF country offices to CHF headquarters and developed a flowchart of the transactions and information flow between CHF country offices and the head office. Note that no project site was visited as part of this review.

D. Organization Overview

The Cooperative Housing Foundation (CHF) is a non-profit organization dedicated to the development of better housing and related community services for low and moderate income families in the United States and throughout the world. CHF and its subsidiary, CHF International, Inc, work overseas at the invitation of local governments and cooperative organizations. CHF provides technical advice and training, and collaborates with local technicians in the development of self-help housing cooperative housing, disaster relief shelter, rural housing and special programs for refugees. CHF receives funding from a number of bilateral and multilateral donors including the U.S. Agency for International Development, the United Nations, the World Bank and the Interamerican Development Bank. CHF is based in Washington, D.C.

E. Project Overview

The purpose of the project is to develop permanent private sector systems in the countries of the Central American region which can mobilize and channel resources for self-help activities in community development, shelter construction and upgrading and employment generation. Specific elements of the project include providing institutional support grants and technical assistance to help local private sector organizations strengthen their capacity to implement activities, and providing loans for home improvements, small business and building material centers

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development, community services, construction and home mortgages.

CHF has established offices in each of the countries where the project is being implemented. These offices are responsible for designing concept papers for new loans or grants, supervising the conduct of feasibility studies, drafting the loan or grant agreements and monitoring program implementation. CHF works closely with the USAID Missions in each country, which play an important clearing function during the loan/grant design process. The Project Manager is based in Washington, D.C. although he spends 30 to 40 percent of his time in the field.

F. Conclusions and Recommendations

1. Reporting System

Our findings indicate that the financial reports submitted are generally timely, completed according to instruction and in compliance with contract provisions. In addition, the information provided appears adequate to substantiate progress. However, we believe that certain improvements can be made in the reporting system in terms of AID management oversight. Our recommendations are as follows:

(a) The summary of expenditures accompanying the SF 269 should provide information as to budgeted amounts.

The summary of expenses currently submitted includes only monthly and cumulative expenditures. We recommend that it be expanded to include budgeted amounts per line item. This will enable the reviewer to determine progress in project implementation and to determine whether project expenditures are within the original amounts approved.

(b) Copies of the reports submitted to M/FM/PAFD (SF 269 and SF 272) should be provided to the AID Project Officer.

Currently, CHF is not submitting copies of these two financial reports to the AID Project Officer as required in the cooperative agreement. The reason provided is that they were informed by AID that this was not necessary. We recommend that CHF submit copies of the SF 272 and SF 269 plus accompanying detail to the LAC Bureau as required in the agreement. The SF 269 and supporting detail provide essential financial information to the AID Project Officer as to expenses per budget line item. Receiving the SF 272 will enable the Project Officer to monitor cash withdrawals as well as outstanding cash balances maintained by CHF. If CHF obtains another large AID grant to be funded under the letter of credit, we recommend that a separate SF 272 be

completed for each project in order to track cash advances and expenditures on a per project basis.

(c) Reporting of additional funds earmarked for particular countries should be required.

Currently, the cooperative agreement does not require separate tracking of funds earmarked for Guatemala and El Salvador, although the CHF Project Manager is providing such information. We recommend that the current cooperative agreement be modified to require separate reporting on those funds which are earmarked for Guatemala and El Salvador, and that separate reporting should be included in all new agreement modifications when additional funding has been earmarked for a particular country. Separate reporting of such funds will enable the AID Project Officer to determine whether the funds are being used as specified in the contract.

(d) The financial schedules included in the quarterly progress report should be modified for clarity and conciseness.

Currently, the schedules provide an overwhelming amount of financial information that is difficult to synthesize since it is spread out over many schedules. In addition, the schedules include many references in abbreviations and acronyms which are critical to understanding the information presented. We therefore recommend that the financial schedules be preceded by one schedule which separates loans and grants and includes in each category:

- o name of country;
- o loan (or grant) number (as a reference point for the other schedules and files maintained);
- o budgeted amount (annual);
- o approved amount (for the reporting period);
- o disbursed amount (for the reporting period);
- o total disbursed to date.

Such information will enable the AID Project Officer to quickly see both project progress (budgeted versus approved) and actual implementation (approved versus disbursed). In addition, we recommend that the schedules be accompanied by a glossary of abbreviations/acronyms used. This will enable those unfamiliar with the project, such as the Director of LAC/DR or a financial analyst in the LAC Bureau to understand the report should they want to review it.

(e) Financial schedules indicating administrative expenses should be included in the quarterly progress report.

Currently, the quarterly progress report includes financial

information on loans and grants only. Not included is financial information on administrative expenses incurred in Washington and in the field. We recommend that schedules be included in the report indicating administrative expenses by office, e.g. Washington, D.C. and each field office. The information presented should be by budget line item and should include budgeted amount (annual), current period disbursements and cummulative disbursements. Such information is essential for project monitoring purposes in that it indicates if project objectives are being met within the constraints imposed by the budget.

(f) The narrative portion of the quarterly progress report should be expanded.

Currently, the narrative portion of the project progress report is quite brief and oriented more towards a listing of activities completed/in progress rather than an evaluation of such activities. We recommend that the report be modified to include more qualitative information, such as the feedback provided from workshop participants or trainees. In addition, we recommend that the AID Project Officer and CHF Project Manager develop indicators by which progress success can be judged and include these in the report. For example, a comparison of the number of families directly benefitting from a particular loan versus the number originally targeted can illustrate the extent to which the project has realized its objectives.

2. Cash Management

Our findings indicate that CHF appears to have sound cash management procedures in place. However, CHF does maintain significantly large cash balances of AID funds on hand at the end of each reporting period. Given that a letter of credit withdrawal can be requested/received within 48 hours, it is unclear whether such large balances at the end of each month are necessary in light of project disbursements. We therefore suggest that AID consider studying this matter further.

3. Internal Controls

Our findings indicate that CHF appears to have adequate internal controls in place. However, we believe certain improvements could be made as follows:

(a) Authority limits for disbursements should be documented.

Currently, authority limits are indicated on the purchase order forms, although these forms are outdated. We recommend that CHF formally document authority limits for disbursements. Formal documentation of procedures is critical to ensuring sound internal controls and provides a ready reference for employees in

carrying out day-to-day transactions.

(b) Original receipts should be required with all country office submissions.

Currently, CHF country offices submit xerox copies of receipts with their monthly liquidation statements. Given that the segregation of duties at the country offices is non-existent due to staffing levels, CHF needs to create additional controls regarding disbursements at the country level. We therefore recommend that CHF/Washington require all country offices to submit original documents to support the check register and petty cash summary sent monthly to Washington. This will ensure that duplicate receipts of expenditures are not submitted for liquidation.

(c) Inventory records maintained should include the funding source.

Currently, the inventory records maintained include adequate information for control purposes with the exception of the funding source per item. Moreover, although the accounting records track disbursements by funding source, inventory is expensed rather than recorded as a project asset. We therefore recommend that the inventory records maintained by the administrative office be modified to include the source of funds for the inventory purchase. In this way, should the LAC Bureau want to check project inventory maintained in the field, such as a computer, a listing in this regard will be readily available.

4. Systems and Procedures

Our findings indicate that CHF's systems and procedures overall are adequate from the standpoint of accountability. However, we believe certain improvements can be made and have indicated them below.

(a) All policies and procedures should be formally documented.

There is no formal documentation of procedural guidelines at CHF with the exception of CHF personnel policies and project loan/grant procedures. Certain procedures such as required approvals and distribution of copies are documented on the respective forms, however, they are not being consistently implemented. We therefore recommend that manuals be written for CHF/Washington and the country offices in this regard and that implementation of the procedures be monitored.

(b) All changes in purchase orders should be approved by the appropriate persons.

Currently, mathematical corrections or other modifications made on a purchase order by the accounts payable clerk are not approved formally. Moreover, the change is not recorded on all copies of the particular purchase order, thereby resulting in inaccurate purchase order copies being filed by the Administrative and Project Officers. We therefore recommend that procedures be modified to require the appropriate approvals for any changes in the purchase order and that all copies reflect these changes.

(c) The monthly reports submitted by the local office should be uniform.

Currently, the reports (records) submitted by the field in regards to check/cash disbursements are not consistent. We recommend that a format for each be designed and required of each country office. We believe that this will facilitate the coding and recording of each transaction at the Washington level. In addition to the format of each report, CHF Washington should provide a description of each account classification included. This will provide an easier audit trail should certain expenses need to be examined.

(d) The separate Lotus schedules for loan disbursements and reflows should be combined.

Our findings indicate that the Project Accountant prepares separate schedules for loan disbursements and reflows. We recommend that these be combined on one schedule in order to facilitate tracking of repayments. Such a schedule would provide in one glance information as to loans disbursed, reflows and total receivable.

(e) The cooperative agreement should indicate what will be done with project reflows.

Currently, the cooperative agreement does not stipulate the end use of the reflows or the reporting requirements of AID with regard to these reflows. We recommend that the cooperative agreement be modified to address the issue of reflows. We are aware that the agreement references the original proposal, which indicates that reflows will be used to sustain the project by providing operating expenses for the country offices as well as grant/loan funds. However, it appears that there is some misunderstanding with regard to whom this reflow money belongs or the financial reports required. A formal agreement on the issue of reflows should alleviate any misunderstandings.

(f) Copies of the final loan/grant agreements should be maintained in CHF/Washington.

In our review of the loan/grant files maintained at CHF/Washington, we noted that most agreements are still in draft form, despite the fact that they are currently being implemented. We recommend that Washington maintain a xerox copy of the final, signed agreement in the original language. In addition, an English summary of significant provisions such as the reference number of the grant/loan, name of the recipient, date of agreement, terms, interest rates and payment schedule should be attached for immediate reference. Finally, CHF should ensure that the files contain control sheets with appropriate signatures for each stage of the agreement (e.g. concept paper, feasibility study, draft agreement) as well as copies of each pagare (promissory note) signed by the recipient.

(g) Each consultant agreement should have an assigned number.

CHF engages the services of short-term consultants, many of whom are retained frequently. However, the consultant agreements are not numbered. As a result, it is difficult to trace payments processed for a consultant, including documentation submitted, to a specific agreement. We therefore recommend that for each consultant agreement, a unique number be assigned, and moreover, that the number be referenced on all submissions and internal forms (e.g. A/P voucher) prepared by the administrative/accounting staff.

(h) The designated Project Manager should indicate approval for payment on the consultant's invoice.

Currently, the Project Manager supervising a consultant does not indicate approval on the consultant's invoice although he does endorse the purchase order. For control purposes, we recommend that the Project Manager indicate on the consultant's final invoice that services have been delivered and are acceptable, and that payment can be processed.

G. Detailed Findings

1. Reporting System

Under this cooperative agreement, AID requires the following reports:

- o Financial Reports
  - Federal Cash Transactions Report (SF 272)
  - Financial Status Report (SF 269)

- o Project Progress Reports

o Special Reports

Below is an assessment of these reports from the standpoint of compliance with grant provisions and adequacy of information for management purposes. Also described are project related reports prepared by CHF for internal use.

a. SF 269 and SF 272 Reports

The SF 269 and SF 272 reports are standard reporting requirements for grants and cooperative agreements funded through a letter of credit. The SF 272 is due monthly while the SF 269 is due quarterly. These two reports have to be submitted to AID, Office of Financial Management, Program and Accounting Division (M/FM/PAFD/PAFD) with copies provided to LAC/DR/HN. Our findings indicate that LAC does not receive these reports as CHF was informed by AID that they were not required.

We reviewed all of the SF 272 reports submitted by CHF to M/FM/PAFD and noted that they were prepared in accordance with the instructions booklet provided by M/FM/PAFD. The report is submitted monthly as required of recipients receiving more than one million dollars per year. In addition, it is prepared on a consolidated basis as required of grantees with more than one AID grant and is accompanied by an SF 272a which provides a breakdown per grant. Although the report is due within 15 working days following the end of each month, we noted that it is usually submitted 30 days after the end of each month. Since the start of the project, only three have been submitted on time. Each report indicates a significant amount of cash on hand at the end of each reporting period. This is discussed in detail in subsection 2- Cash Management.

In our review of the SF 269 reports submitted to M/FM/PAFD, we noted that they were also prepared in accordance with instructions. Although this report is due 30 days after the end of each quarter, CHF submits this report monthly together with the SF 272. The SF 269 is always supported by a detailed summary of expenses for the month as well as the cumulative amount. All of the SF 269s filed at M/FM/PAFD have the required LAC Bureau Project Officer's approval. However, we noted that in most cases, the Project Officer's copy of the report was returned to M/FM/PAFD.

In reviewing the supporting detailed summary of expenses, we noted that only the amount of expenses for the month and the cumulative balances are reflected. The amount budgeted for each expense account as compared to the actual disbursement, whether by year or for a given period, are not reflected in the report. Such comparative information would be valuable in reviewing and assessing the project's progress or performance in financial

terms.

As part of our analysis, disbursements recorded in all of the SF 272 and SF 269 reports prepared to date were compared and no exceptions were noted.

The SF 272 and 269 reports and supporting detail are prepared monthly by CHF's Assistant Controller and reviewed and certified by the Controller. The financial information reported is taken from CHF's automated general ledger system. In Part 4- Systems and Procedures, we discuss how this financial information is generated. In addition, Exhibit 1 includes a flowchart of recordkeeping and reporting procedures for the AID project under review.

As of the date of this review (November, 1987) M/FM/PAFD's files do not include copies of the reports for the quarter ending September, 1987. However, according to the CHF staff interviewed, reports for this quarter have been submitted and we obtained copies from CHF's files. Because of staffing constraints at M/FM/PAFD, it is probable that these reports have been received and not yet processed.

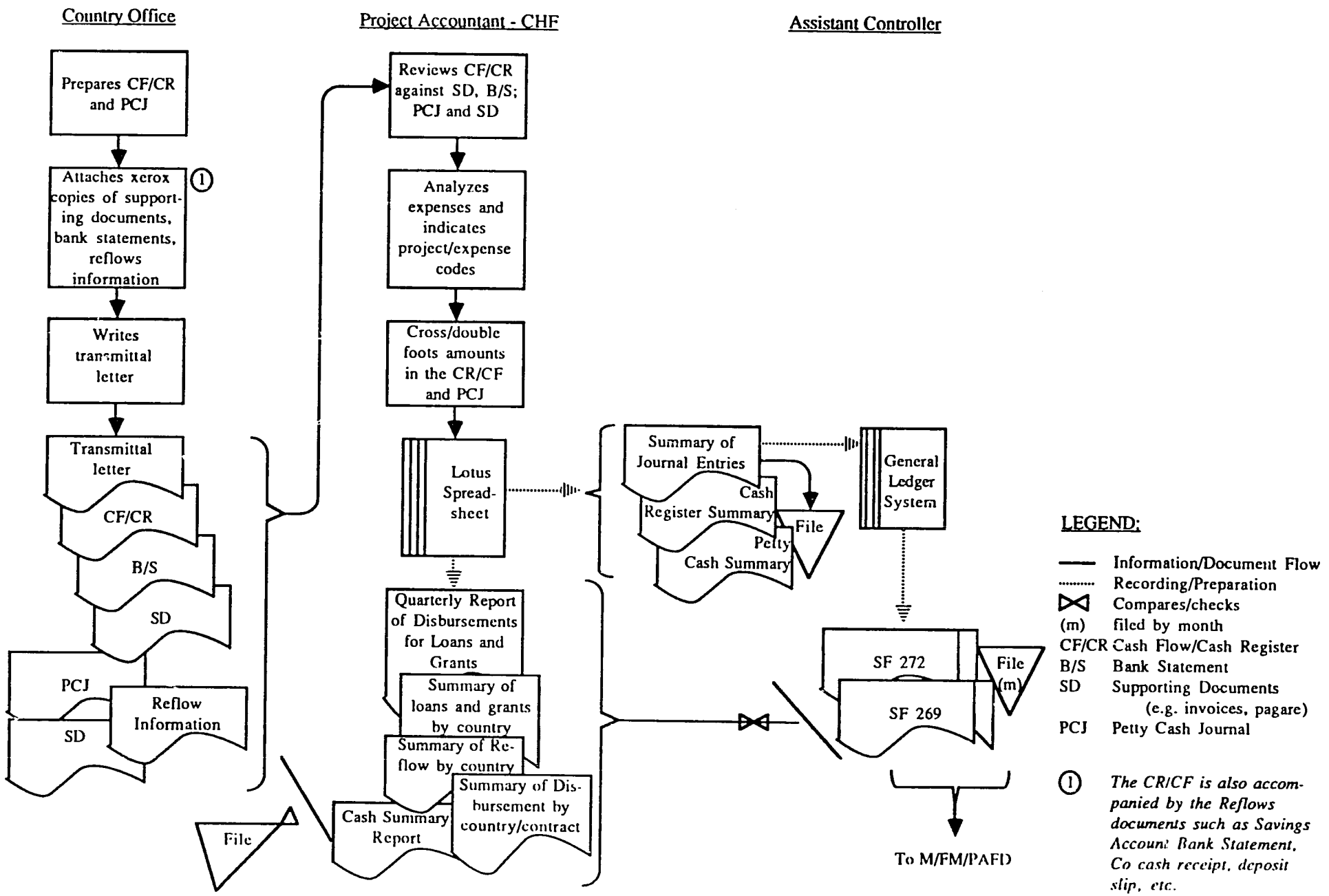
According to the Financial Analyst who reviews CHF submissions, there have been no problems with the organization to date. On a couple of occasions when reports had not been submitted and funds were requested, the Financial Analyst notified the CHF Controller who immediately delivered the required reports to M/FM/PAFD.

b. Project progress reports

The project progress report, due quarterly to LAC/DR/HN, should generally include both narrative and financial project status information. In our review of the reports submitted to LAC, we noted that their orientation was quantitative rather than qualitative. The report for quarter ending June 30, 1987 contains a cumulative summary on a per country basis of the status of loans and grants. It includes the number of loans and grants/amendments budgeted, in process and committed. In addition, the summary includes the total monetary amounts of loans/grants budgeted, committed and in process. Also indicated is the total amount of local counterpart inputs in cash and in kind.

The cumulative summary is supported by five schedules. One schedule, entitled "Status of Loans, Grants and Guarantees Subprojects - Pre-implementation Stage", provides detailed information on loans per country. It indicates each loan reference number, the borrower and nature of the loan (both in acronyms), the loan amount contribution by CHF and by local inputs, the status of the loan (eg in process, CHF/USAID

FLOWCHART ON RECORDKEEPING AND FINANCIAL REPORTING



approved, and/or signed) and the number of families to benefit from the loan. For those CHF and AID personnel who are involved in the project and have gained familiarity with the acronyms and symbols, the report is informative in terms of both financial flow and loan programs being funded. However, for a new Project Officer or someone not familiar with the report format, deciphering the report is difficult without an explanation of its content.

Another financial schedule in the progress report consists of the status of institutional support grants. The grants are listed by country and by grant reference number. However, one must be familiar with the grant numbering scheme to know they are by country. Information presented includes the grantee's name (using an acronym), the amount of the grant, and the grant status which is indicated by concept paper and/or draft grant approval as well as date signed. It does not show the total amount of grant per country to facilitate comparison against the other schedules.

The third and fourth schedules show the status of the original project funds and the status of the additional project funds earmarked for Guatemala and El Salvador.

The fifth schedule lists project disbursements for loans and grants by country, and provides cummulative figures for prior period disbursements, current period disbursements and a new cummulative total on three separate sheets. The information in this schedule is provided by the Project Accountant.

The Project Manager prepares the first four schedules based on his knowledge of project activities in the country offices. This knowledge is based on frequent communication with the country office directors as well as on documents that have been prepared to date, e.g. concept papers, feasibility studies and draft and signed agreements.

In summary, the financial schedules included in the progress report present useful financial information for project oversight. However, because the information is distributed on numerous schedules, it is difficult to get a concise financial picture, particularly in regards to loan/grant approvals vs. disbursements. The report would be more informative in terms of project progress if a comparison between each loan/grant amount approved and disbursed was presented on one schedule. Likewise, it would be helpful to see on one schedule the amount of loans/grants budgeted and disbursed to date.

The progress report does not include financial schedules indicating administrative expenses. Such schedules are necessary for management purposes not only to monitor administrative expenses funded by the project but also to determine if project

objectives are being realized within budgetary constraints. Information which should be provided includes budgeted amounts by budget line item as well as disbursements, on a per office basis. (e.g. Washington, D.C. and each of the field offices.)

An addition schedule included in the progress report is a schedule of project related travel. It would be more informative if this schedule were related to project activities or accomplishments during the reporting period.

The narrative portion of the report is quite brief, consisting of less than two pages. The report for the second quarter of 1987 provides a synopsis of regional training and workshops conducted, including a description of the topics and participants. The narrative portion of the third quarter report ending September 1987 includes a synopsis of the baseline survey of the program, an amendment made on an institutional support grant to one cooperative, and publications prepared in Spanish. Regarding training and workshops, the report would be more useful if comments/feedback from the trainees/participants were included. The narrative portion would also be more useful if indicators by which project success could be judged were included. For example, a comparison between the number of families that are directly benefitting from a particular loan versus the number originally targeted can illustrate the extent to which the project has realized its objectives.

c. Special Reports

The agreement stipulates that special reports are to be created upon request by AID/W or its Missions. However, to date no such reports have been requested.

d. CHF Internal Reports

As discussed in the project overview, CHF established offices in Costa Rica, Guatemala, Belize, El Salvador, Honduras and Panama to implement the project. Each of these offices submits two monthly reports to CHF/Washington. These include a Report of Operating Expenses and Disbursements for loans and grants and a Summary of Petty Cash Expenses. The former is actually used as a check register to track disbursements paid by check. The latter is also an accounting of disbursements but lists only those made in cash, which are usually in smaller amounts.

According to the Project Accountant, CHF/Washington provided each country office with a format for these two reports at the start of the project. However, in our review of each country's submissions, we noted that some of the reports differed in format and in the classification of expense categories listed. Given that the country offices are implementing the same project, the

account classification should be identical. Moreover, as these reports are stated in local currency and converted to U.S. dollars by CHF/Washington accounting staff before being recorded in the overall system, a uniform format would facilitate the processing in Washington.

Occasionally, CHF/Washington requires the country offices to prepare and submit a Project Control Chart. This report shows a summary of loans and grants, the recipients, the nature of the loans/grants and the cash inputs at both the Washington and local levels. Also included are the disbursement dates, amounts, remaining balance, and payments made by the recipients. Finally, the report lists the due dates of financial and progress reports required of the recipients and whether or not they have been received.

In addition to the above, the Project Accountant prepares a quarterly report of operating expenses by country showing the budgeted amount per expense category, the current quarter's expenses, cummulative expenses and remaining budgeted balance. This report is used to monitor and measure performance of country offices.

On a daily basis, a cash flow statement is prepared in CHF/Washington for the Controller. This report, prepared by the Disbursement Clerk, provides the Controller with information regarding disbursements made and funds available.

2. Cash Management

From April, 1985 through August 31, 1987, CHF withdrawals from its letter of credit had reached approximately U.S. $10,192,500 covering several projects, among which is the Cooperative Neighborhood Improvement and Job Program for Central America. These fund withdrawals are not monitored or accounted for on a per project basis. However, as indicated below in the discussion of recordkeeping, expenditures per project are monitored.

Separate bank accounts for AID funds are maintained at the country office level. Project funds are segregated into several bank accounts maintained by each country office. These accounts include:

- o Checking Account (local currency) - consists of AID funds; used for operating expenses as well as loan/grant releases to recipients

- o Checking Account (U.S. dollars) - consists of AID funds; used to transfer dollar funds from CHF Washington to each country office

o Savings Account - consists of CHF funds from loan reflow deposits

No separate bank account for AID funds is maintained by CHF in Washington. However, LOC withdrawals are monitored through the SF 272. In addition, as indicated above, a Projected Cash Balance per bank account is prepared daily for cash monitoring purposes.

In reviewing the cash management system of CHF, we noted that the project funds balance reported in the Consolidated SF 272 ranged from $126,000 to $304,000 during 1987 and between $151,000 and $860,000 in 1986. In 1986, a negative cash balance of $103,500 was reported for one month. These high balances reflect the fact that the ending balance of cash on hand includes cash advances made to country offices. The total cash advances made to country offices are reported in the remarks section of the SF 272 report. These advances totaled between $92,000 and $585,090 per month from 1986 to 1987.

Project fund transfers to country offices are made only upon request of country offices through the Project Director. A memo indicating the requesting country office and amount is signed by the Project Manager and submitted to the Controller for approval and processing. Funds transferred to country offices are treated as advances rather than disbursements until they are liquidated in the monthly check register/cash flow report submitted by each country to CHF/Washington.

To ensure that all bank account balances reflected in the books of accounts are correct, monthly bank reconciliations are made.

3. Internal Controls

a. Segregation of Duties

At CHF/Washington, responsibilities for processing payments, approvals, recordkeeping, bank statement reconciliations and reporting are properly segregated. In country offices, such segregation is not possible due to the size of manpower and budget constraints, therefore, processing of payments/disbursements, approval, summarizing and reporting is handled by only one staff person. However, as indicated above, these transactions are reported and reviewed in detail at CHF/Washington and bank reconciliations of each country office's bank accounts are performed monthly by the Project Accountant in Washington.

b. Authority Limits

For control purposes, approving authority limits on disbursements have been established. Disbursements amounts and

required approvals are as follows:

- o Project Manager, Regional Director or Control Secretary ($.01 - $99.00)
- o Administrative Officer ($100.00 - $499.99)
- o Controller ($500.00 - $999.99)
- o Senior Vice President ($1,000 - $9,999)
- o President ($10,000 and over)

These limits are not formally documented in a procedures manual. However, they are indicated on the standard purchase order form used by CHF. (Although, note that the upper limit of $9,999 assigned to the Senior Vice president was done recently and is not reflected in the purchase order form.) In addition, the Project Accountant indicated that all disbursements, including those below $500.00, should be approved by the Controller before processing.

c. Check Signatories

To ensure that funds are properly safeguarded, signatories to the bank accounts have been restricted. For the country office checking accounts used for operating expenses and loan and grant payments, the country office director is the only authorized signatory. For each country's savings accounts in which the loan reflows are deposited, four signatories have been designated, any two of which are required for a specific transaction. The four signatories include the project's regional director (CHF's President), the Project Manager, the Washington Controller and the Country Office Director. For the bank accounts maintained in Washington, the designated signatories include the Controller, the Senior Vice President and the President.

d. Review of Payment transactions

For internal control purposes, all purchase orders as well as other transaction documents are doublechecked at CHF/Washington by the bookkeeper as to expense classification and correct account coding. In addition, mathematical computations and required approvals are validated before the transaction is processed and recorded. As discussed below in Part 4 - Systems and Procedures, documents supporting disbursement transactions submitted by the country offices are reviewed by the Project Accountant. However, only xerox copies of supporting documents are submitted to Washington although the official books of accounts are maintained in D.C.

e. Special Audits

As mentioned in the preceding paragraphs, segregation of duties at the country office level is not possible due to the limited number of staff. To assure CHF/Washington management of the propriety of expenditures and disbursements and that funds are properly accounted for, the services of local auditing firms were contracted to conduct financial audits of the local offices. In addition, a management audit was performed of the loan beneficiaries with the objective of ascertaining whether they could effectively manage the disbursements of loans to subborrowers as well as report back to CHF.

The audit work has been completed and reports submitted for the Panama, Honduras, El Salvador and Guatemala offices. As of the date of this assessment, these reports with the exception of the Guatemala one have been reviewed by CHF. The audit work for the remaining two country offices, Belize and Costa Rica, is still in progress. In our review of the audit reports for Panama, Honduras and El Salvador, we noted the following:

- The period covered by the audits was from project inception (1985) to December 31, 1986 for El Salvador and September 30, 1986 for Honduras and Panama.

- An unqualified opinion was rendered on the Statement of Cash Income and Expenses of the El Salvador office. In addition, the report included the general finding of the auditors that the systems and internal controls of the recipient organizations were adequate.

- An unqualified opinion was rendered on the Honduras office's Statement of Cash Income and Expenses. The Honduras report also included results of a management review conducted of the grantees' operations aimed at providing CHF assurance of the grantees' compliance with the requirements of the loan/grant agreements.

- No opinion was rendered for the Panama country office's financial statements. However, a report of the significant findings on the systems and procedures as well as internal controls of the office was made.

f. Inventory control

Inventory records are maintained by the Administrative Officer. Equipment, furniture and vehicles are tracked separately by country office and in Washington and are assigned inventory control numbers. Although the inventory is not tracked by funding source in the Administrative Officer's inventory records, the general ledger tracks inventory expense by project (funding source) and by country. However, inventory is not itemized but is

grouped together under general account codes such as equipment. Thus to trace a computer purchased for Belize with AID funds, one needs to trace the equipment account in the general ledger to the A/P record to the actual file where disbursement records are maintained and compare those to the inventory records maintained by the Administrative Officer. Given that the administrative office does maintain inventory records, tracking of AID funded inventory would be greatly facilitated if the project funding source was included on said records.

In the audits conducted of the local offices, it was reported that fixed assets were physically inspected, and a listing of such assets are included in the audit reports.

4. Systems and Procedures

a. Recordkeeping

(1) Country Office

The country offices do not maintain official project records. According to the Controller, country disbursements used to be summarized manually until recently when each office was provided with a personal computer. As of this review, records of cash and check disbursements are summarized using the Lotus 123 software. These records, which also serve as monthly reports submitted to CHF/Washington, consist of a Cash Flow/Check Register and a Petty Cash Summary. Copies of these two records are submitted to Washington on the second week after the end of each reporting month.

The Cash Flow/Check register reflects the funds received from CHF/Washington, disbursements made and the fund balance. Disbursements relating to operating expenses are supported with xerox copies of invoices or signed receipts. Disbursements of loans and grants are supported by xerox copies of acknowledgement receipts by the borrower/grantee as well as the pagare, the provisional promissory note. The pagare is one of the conditions precedent for CHF disbursement of the loan/grant.

The petty cash summary (or journal) reflects cash transferred from the checking account to the petty cash fund and the various disbursements made. This record is also supported by xerox copies of invoices.

All transactions included in the Cash Flow/Check register and petty cash summary are indicated in local currency. As indicated, copies of receipts and invoices accompany these records, with all originals maintained at the country office level.

In addition to the above records, copies of bank statements

from each country's accounts are submitted to CHF/Washington. These are reconciled by the country officer before they are forwarded to Washington.

It does not appear that the country offices maintain operation budgets for administrative expenses. Such a record would be useful in order to compare budgeted to actual costs. The AID Project Officer indicated that he has requested CHF to prepare annual operation budgets for each country office.

(2) CHF/Washington

At CHF/Washington, recordkeeping is automated using the "Solomon" accounting software package. A transaction coding system is used which identifies transactions by expense category and on an individual project basis.

AID project transactions originating in Washington are entered directly into the system. However, for internal control reasons, the transactions are reviewed by the accounting staff to ensure that the account codes and amounts entered are correct.

Project transactions originating at the country office level are reviewed thoroughly by the Project Accountant before being entered. Each transaction listed on the check register/cash flow and petty cash summary records is first verified against the accompanying receipts, analyzed as to the type of expense charged, and then assigned an expense account code. In addition, the bank statements which accompany the check register are compared with the check register as to transaction entries. If no discrepancies in transactions are found, the two records are summarized in a Lotus 123 spreadsheet on a per country basis. From one spreadsheet, the Project Accountant prepares the following schedules:

- o Summary of check disbursements by expense account, which shows the local currency amount and its dollar equivalent
- o Summary of petty cash disbursements by expense account, both in local currency and U.S. dollars
- o Bank reconciliation statement per account
- o Summary of Journal Entries

The last schedule, the summary of journal entries is entered into CHF's automated general ledger.

The Lotus spreadsheet is also used to keep detailed subsidiary records of loans and grants as well as loan repayments. The loan subsidiary is maintained per country and indicates the name of the borrower, the loan reference number, the nature and purpose of the loan, the disbursement date, the

amount in local currency and U.S. dollar equivalent, and the cumulative amount. The subsidiary of reflows or repayments, maintained by country, shows the date of deposit, bank account number in which the reflows were deposited, loan reference number and the amount both in local currency and U.S. dollar equivalent.

We selected one sample of each of the above schedules for review. We noted that some of the titles were either not descriptive of the information contained or missing altogether. In addition, we noted that the summary of journal entries prepared by the Project Accountant on the basis of the records submitted by the countries did not pass through her supervisor, the Project Manager or the Controller for notation or approval prior to entry in the general ledger. It was explained that such approvals were not considered necessary since country officers were given full responsibility for fiscal management of their funds. Finally, we noted that two schedules, the summary of loan/grants releases and the summary of reflows, could be combined in one schedule to provide more comparative information.

One of the programs within the general ledger software maintains a detailed record of advances to officers and employees. This record is updated monthly and a Monthly Employee Expense Reconciliation (MEER) form (per employee) is generated. These MEERs are submitted to the Controller for review and distributed to CHF personnel, copies of which are filed in the individual employee reporting form files. This procedure facilitates sound cash management in that it encourages employees to liquidate their advances on a regular basis.

The general ledger is the basis for the SF 272 and SF 269 financial reports submitted to M/FM/PAFD. In addition, the Project Accountant provides the project director with a summary of releases on a quarterly basis which is generated from the lotus spread sheet. Refer to Exhibit 1 for a flowchart on Recordkeeping and Reporting for the AID project.

b. Disbursements

Disbursements of project funds are made at both the Washington and country office levels. Disbursements made by CHF/Washington include payroll, fund releases to country offices and procurement of supplies/services. Refer to Exhibit 2 for a flowchart of CHF's disbursement procedures.

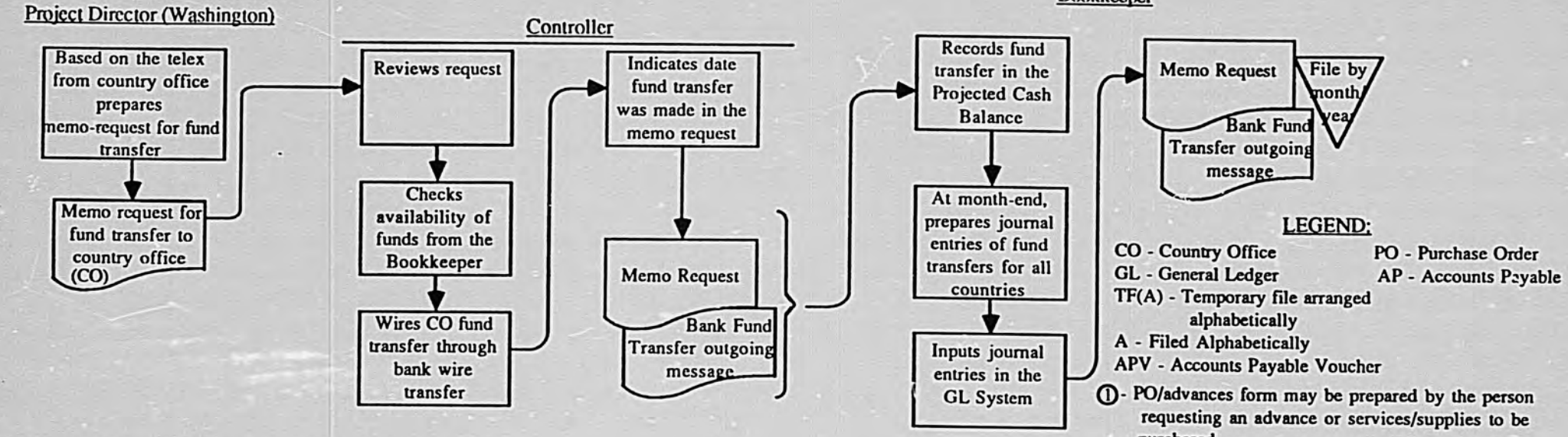
The payroll is handled by an outside firm (Automatic Data Processing, Inc.) retained for that purpose. On a bi-weekly basis, the CHF payroll clerk prepares a summary time report of hours worked per project account per employee based on individual timesheets submitted. Every employee's timesheet is signed by his/her supervisor and is reviewed by the Administrative Officer

CHF

Exhibit 2

FLOWCHART ON PROCESSING DISBURSEMENT

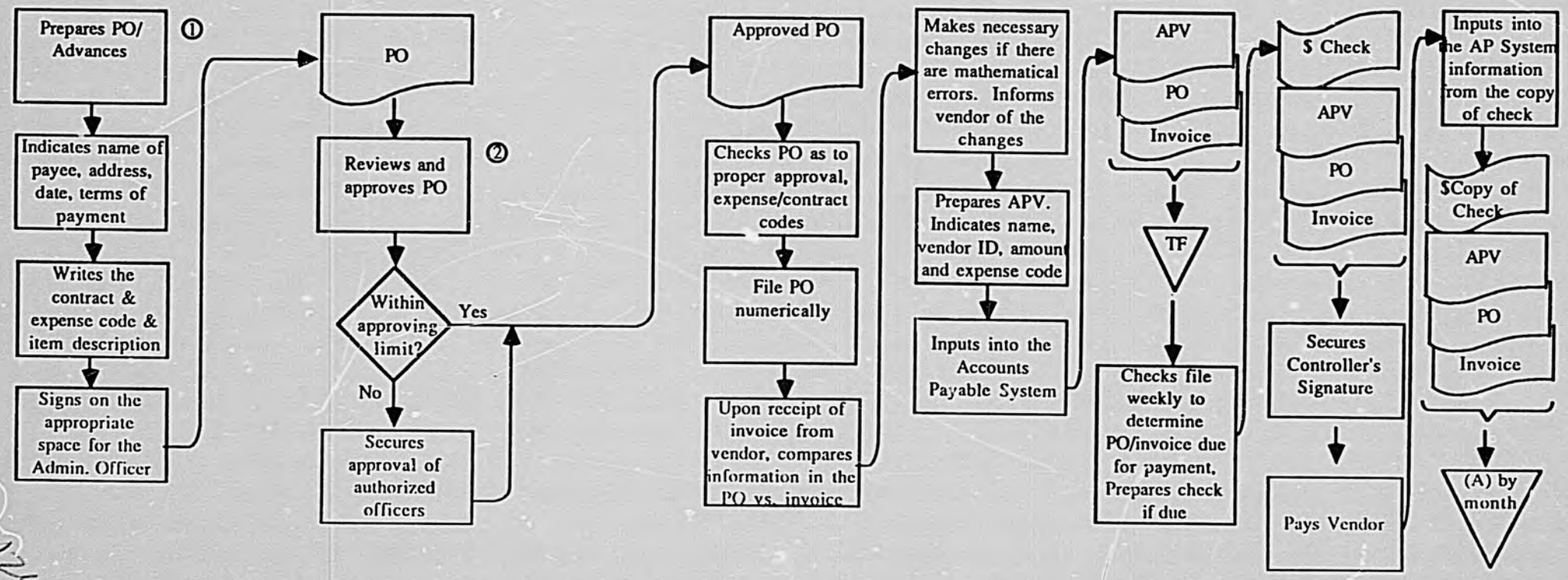
A. For Fund Releases To Country Offices



LEGEND:

CO - Country Office
PO - Purchase Order
GL - General Ledger
AP - Accounts Payable
TF(A) - Temporary file arranged alphabetically
A - Filed Alphabetically
APV - Accounts Payable Voucher
① - PO/advances form may be prepared by the person requesting an advance or services/supplies to be purchased
② - The Controller signs all PO to check coding and be aware of all disbursements being made

B. For All Other Types of Expenses



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to ensure that the proper project accounts have been charged. Employees working on the AID project must have their timesheets signed by the Project Manager.

Fund requests from country offices are made by the country office director to the project director, who in turn prepares a memo request and submits it to the Controller. Once approved, the funds are deposited in the country office's bank account via electronic transfer. We tested one such disbursement transaction and noted that it was supported by the memo request from the project director, and was duly signed and noted by the Controller as to the action taken and the date the wire transfer was made. Also included was a copy of the bank's fund transfer outgoing message.

Procurement of supplies and services are done through a standard purchase order form. The form is processed by the Administrative Officer, who enters the appropriate project account code and obtains all of the required signatures. The original is forwarded to accounting and a copy is provided to the originator of the purchase order. The Administrative Officer also maintains a copy which is filed by purchase order number. According to the Controller, the administrative officer checks purchase orders against the original project budget to ensure that items requested are in accordance with the cooperative agreement. However, the Administrative Officer indicated that this is not possible for the AID project since the budget line items are too general in nature.

For procurement of vehicles and equipment with AID project funds, the cooperative agreement stipulates that approval must be obtained in advance from the AID contracting officer. We reviewed once such transaction of computer equipment purchased for Guatemala. The letter submitted to AID, duly endorsed by the contracting officer, included an itemized list of equipment to be purchased and corresponding prices, as well as a description of the equipment's end use.

Bills are usually payable 30 days upon receipt. Purchase orders together with the supporting documents which are not yet due for payment are temporarily filed in alphabetical order. The bookkeeper checks this file once a week to retrieve bills and purchase orders due for payment. Disbursements are payable by check. A disbursement transaction representing payment to a courier service was tested. It was supported by the original copy of the courier's invoice, an accounts payable voucher indicating the name of the payee, amount, expense/project code and the purchase order, which was duly signed by the Administrative Officer and the Controller. Two additional disbursements were tested, one for a short-term consultant payment and one for a subcontractor payment. Refer to the discussion on subcontracting procedures and short-term consultancy procedures below for our

findings in this regard.

Disbursements made at the country office level are for operating expenses and loan and grant releases. The country office director may approve disbursements up to US$ 1,000. However, for disbursements greater than $1,000, prior written approval must be obtained from CHF/Washington.

c. Policies and Procedures

CHF does not have written accounting policies and procedures at either the Washington or country offices. However, procedures regarding form approvals required, distribution of copies and authority limits in the case of expenditure/disbursement approvals have been established and are indicated on the various forms used by CHF, e.g. the purchase order form, travel advance authorization, employee expense form. Nevertheless, in reviewing selected transactions (refer to part d below), our findings indicate that the procedures as described in the forms are not being consistently followed. Moreover, the approving authority limits have been recently modified but are not reflected in the purchase order form currently in use nor are they formally documented.

CHF does have written procedures for accounting of loan payments from borrowers (referred to as reflows). The procedures cover the bank accounts to be maintained and used for operating expenses, loan releases, loan reflows and authorized signatories. Also included are a description of what loan files must be maintained and procedures for receiving reflows.

d. Subcontracting procedures

According to the staff interviewed, CHF does very limited subcontracting. For the AID project, there have been only two subcontracts to date, both for training programs. These two contracts, maintained by the Administrative Officer, were reviewed to ascertain the adequacy of provisions contained therein. Both followed the same format and contained a statement of work defining the inputs and outputs expected of the subcontractor, period of performance, proposed budget, and ceiling price and documentary requirements for payment. Also included are articles governing data rights, suspension and termination of the contract, and rights of the subcontractor to further contract out work. In addition, the contract includes requirements for the maintenance of the subcontractors' accounting records in a way that is sufficient to properly reflect all transactions under or in connection with the contract. Moreover, these records must be maintained for three years and be subject to inspection and audit by CHF and its auditors at all reasonable times. Finally, to each contract was attached AID document 1420-52 which defines standard provisions

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governing nonprofit organizations receiving U.S. grants and subgrants. Note that prior approval from AID regarding subcontracting is not required under the cooperative agreement.

In order to assess the adequacy of contract implementation, one contract and supporting documentation produced for payment were reviewed in detail. The contract is between CHF and the American Institute of Cooperation (AIC) and was signed in September, 1986. The contract was completed in December, 1986 which is within the six month period of performance required in the contract.

Payment provisions are on a cost reimbursement basis, with a ceiling price of $7,792.00. The contract stipulates that fees and expenses "will be billed at cost in accordance with costs set forth in Schedule A" (the proposed budget) and that payment will be made upon determination by CHF that the requirements of the contract have been completed and accepted by CHF. The documentation requirements for payment is an invoice which includes the following:

- o contract name/number
- o billing period covered by invoice
- o professional time billed by name, rate and number of days or hours
- o applicable overhead agreed rate of 60%
- o expenses itemized by major categories

We reviewed the invoice submitted by AIC on December 12, 1986 upon the completion of the contract. It included all of the above requirements. However, the daily rates of AIC staff in three cases were greater than those indicated in Schedule A - the proposed budget. In addition, one expense item - translation, was budgeted at a certain amount per day but expensed at a certain amount per 1000 words. Finally, the total invoice price was greater than the contract ceiling price. However, the CHF deputy Project Manager who was in charge of the subcontract contacted AIC and the total invoice price was modified to be within the ceiling price.

In addition to examining the invoice, we reviewed the documentation attached by CHF to process payment in order to validate the disbursement procedures as described in our interviews. A purchase order was completed by the Deputy Project Manager on January 8, 1987 and duly signed by the appropriate CHF personnel. Attached to the purchase order was a signed, dated note from the Deputy Project Manager indicating that AIC had met all of the output requirements as stipulated in the contract. Also attached was an accounts payable voucher indicating the total amount to be paid and the account code to be charged. Finally, a copy of the check issued May, 14, 1987 indicating payment accompanied the package.

In our review, we noted that the amount indicated on the purchase order and accounts payable voucher did not equal the amount actually disbursed to the subcontractor, the reason being that an error had been made when the total invoice price was modified to have it within the ceiling price. However, as standard operating procedure requires the accounting clerk to recalculate the total before issuing payment, the error was detected. This example provides a confirmation of the responsibilities of the accounting clerk as expressed during cur interviews.

Concerning subcontracting at the local level, our review of the audit report for the Honduras office indicates that this office has subcontracted on a number of occasions. According to the Project Manager, subcontracting at the country level must be approved in writing by himself for monetary and programmatic control purposes. However, approval is at times relayed by telephone with written approval forwarded after the fact.

e. Short-term consultancy procedures

Although CHF does limited subcontracting with institutions, it relies heavily on independent short-term consultants for the technical assistance component of the project. As a result, standard procedures and forms have been established in this regard and are detailed below. We randomly selected three short-term consultancy agreements funded under the cooperative agreement with AID in order to ascertain the adequacy of provisions contained therein. The agreements are maintained by the Administrative Officer and are filed by consultant. Most short-term consultants hired by CHF have been retained on more than one occasion.

The general procedure for securing the services of an outside consultant originates with a Project Manager, who completes a standard consultant letter information form which is submitted to CHF's Administrative Officer, who using a standardized format, drafts a consultant letter tailoring it to the specific engagement. Once approvals are obtained from CHF's President, Controller and the Project Manager who originated the request, a final letter is forwarded to the consultant. This letter constitutes the official consultant agreement, and once endorsed by the consultant, becomes a binding document. Note that prior approval from AID is not required under the cooperative agreement.

The three consultant agreements randomly selected for review were dated 11/13/85, 8/27/86 and 5/15/87 respectively. Each contained a description of:

- the nature of the engagement

- o the start and end dates
- o the expected output and in two cases, the date due
- o the person to whom the consultant must report
- o the consultant's fixed daily rate
- o the authorized per diem rate and explanation of allowable expenses
- o in two cases, documentary requirements for payment
- o data rights and insurance and full-time employment disclaimers

According to the Administrative Officer, these letters are accompanied by the following forms: CHF Employee Expense Reporting Form, Program Travel Report and Consultant Time Report. Preprinted on these forms are instructions for their completion. In addition, the consultant agreements include instructions in this regard.

The consultant is generally given an advance to cover per diem costs as well as a roundtrip ticket to the country of assignment. The Administrative Officer completes a Request for Travel Authorization and Advance form, which must be endorsed by herself, the Project Manager, Controller, President or senior Vice president and consultant receiving the advance. This advance is subject to liquidation by the consultant upon completion of the engagement.

The consultant's fees and any additional costs incurred are usually paid upon receipt of the final report by the Project Manager. The Administrative Officer reviews supporting documentation submitted with the consultant's invoice to ensure that all required signatures are included and that costs claimed are in accordance with both the agreement and AID regulations. Receipts required include all expenses greater than $20.00 and hotel receipts (else consultant receives only a one-half day per diem). The Administrative Officer then completes an expense coding sheet to indicate the correct account numbers, a purchase order for the outstanding balance and an accounts/payable voucher and submits the package to accounting for final processing. The consultant is sent a copy of his expense reporting form both to notify him that his payment is being processed and so that he may see if any expenditures have been disallowed.

The Accounting Department maintains all of the receipts and various forms submitted by each consultant. Similar to the Administrative Officer's files, they are maintained by consultant rather than by project or agreement. Thus, located in one file are all invoices, receipts, expenditure reports and the like submitted by a consultant for a given fiscal year.

In order to validate the procedures as defined above by CHF personnel, one of the three consultant agreements reviewed above (Phillip Jones, 8/27/86) was further analyzed and supporting

documentation submitted for payment was reviewed in detail. The final agreement was duly signed by the consultant and the draft agreement included all of the required approvals. The documentary requirements for payment indicated in the agreement included the above mentioned forms and receipts for expenses greater than ten dollars. The agreement also stipulated that payment for professional fees would be forthcoming upon receipt and approval of the consultant's final report.

All receipts and accompanying forms maintained by accounting were reviewed. The following items were noted:

o The Request for Travel Authorization & Advance (RTAA) form had all of the required approvals except for that of the Administrative Officer.

o The RTAA copy retained by Accounting was the original which, according to the form's instructions, should be retained by the Administrative Officer.

o The CHF Employee Expense Report had all of the required approvals.

o All three copies of the expense report were together, although the form's instructions indicate that the consultant should retain one (pink) and that another (yellow) will be forwarded to him when payment is processed.

o The Program Travel Report (PTR) and Consultant Time Report were duly certified by the consultant. The latter had the required supervisor approval.

o The PTR was accompanied by a worksheet as required, indicating per diem calculations. Expenses greater than $10 were itemized; however, only two receipts were provided.

o The purchase order authorizing final payment was requested by the Deputy Project Manager and had all of the required approvals except for that of the Controller.

o All three copies of the purchase order were together, contrary to the instructions for distribution indicated on the form.

o A certified invoice from the consultant indicating the liquidation of the advance and remaining payment due accompanied the forms.

f. Loans and Grants

As indicated in the project overview, a substantial portion of the project's budget and therefore reporting is for loans and

grants to institutions in Central America. We therefore focused part of our review on understanding the procedures surrounding the management of loans and grants. In addition, we randomly selected three loans and two grants in order to ascertain the adequacy of provisions contained therein, particularly in regards to financial reporting.

The categories of loans provided in the Central America program include Home Improvements, Small Business & Building Material Centers, Community Services, Construction and Mortgage. Grants are provided for institutional support. The process by which loans/grants are approved includes the preparation of a concept paper and feasibility study prior to the drafting of the final loan/grant agreement. To each document is attached a standard control sheet which indicates the country, grant/loan number, recipient, amount and type of document being approved. Also indicated are the names of the persons who must provide approval and their signatures, e.g. the CHF president and the Project Manager.

The concept paper is written by the CHF country office staff and submitted to CHF/Washington for approval. If it is approved, the concept paper is forwarded to the USAID Mission for their endorsement. The concept paper identifies the recipient and briefly describes the nature and purpose of the loan. By having it reviewed by both CHF/Washington and USAID, immediate feedback on the potential recipients is available. This is critical for screening out institutions with which CHF or USAID has had bad experiences. For control purposes, the loans/grants are assigned a unique number at the concept paper stage. This number will not be reassigned to another loan/grant should the concept paper be rejected.

Once the concept paper is approved, a thorough feasibility study is conducted. The objective of the feasibility study is to determine whether or not the institution can effectively manage the funds. This is critical since the purpose of a loan to an institution is to enable it to make small loans to individuals. In many cases, an institutional support grant is provided prior to the loan to assist the institution in developing systems for managing the loan. We reviewed one such study (for Loan #4 in Costa Rica) and noted that it included an implementation plan, financial plan and conditions precedent, as well as financial statements, income and loss statements and cash flow statements of the recipient organization. Note that all of the financial statements were of the final recipient institution and not the intermediary one.

The feasibility study must be approved by CHF/Washington and the USAID Mission in the country of the recipient before the loan/grant agreement is drafted. Required approvals of the loan/grant agreement include the Regional Project Director, the

Project Manager, CHF's Controller and the USAID Mission. The final loan/grant agreement is written in the Spanish language and the original is maintained at the country level.

The CHF country office is given primary responsibility for managing the loans/grants, particularly in regards to monitoring the financial reporting, determining when disbursements should be made and tracking repayments. Financial reports are required of the recipients either monthly or quarterly. Loan disbursements are made in tranches, based on conditions precedent being met. At that time, a pagare (provisional promissory note) is executed between CHF and the borrower and funds are requested from CHF/Washington.

Regarding loan repayments (reflows), a manual has been put together defining reflow management procedures. In brief, the assistant Controller at CHF/Washington prepares an individual amortization schedule for each loan disbursement. Once a loan has been fully disbursed, a consolidated amortization schedule is prepared and forwarded to the country office. Both the individual and consolidated amortization schedules are reviewed with the legal office at CHF/Washington prior to being forwarded to the field.

The Country Director sends a standard reminder letter to the recipient five days prior to the payment due date. Upon receipt of the funds, the officer records the receipt in the appropriate repayment record, deposits the funds into the special savings account set up for reflows and forwards a standard loan receipt form to Washington for their records. If a payment is late, the Country Director notifies the Project Manager who takes remedial action.

The Controller indicated that the beneficiaries are usually well known to CHF and to date, there have not been any late payments. However, for internal control purposes, a recent audit was conducted of recipients and subrecipients in several countries. Refer to Part 3.e - Internal Controls for a description of these audits.

The reflows manual indicates that files for each loan will be maintained at the local CHF office as well as the CHF/ Washington office. These files must contain an amortization schedule discussed above and a repayment record, both in current status. The reflows manual also includes procedures for the reprogramming of reflows. However, the project has not yet reached this stage of implementation.

Our findings indicate that the cooperative agreement does not clearly define what is to be done with the reflows or the reporting requirements, if any, with regard to these reflows. We are aware that the original proposal defines the purpose of the

reflows to be project sustainability in that they will contribute to country operating expenses as well as to the loan/grant fund. As there appears to be some confusion with regard to reflows, a formal amendment to the cooperative agreement on this issue would be appropriate.

At present, accounting maintains loan records which indicate loan release per borrower on a per country basis. Another record is maintained on reflows, also per country and per borrower.

As mentioned above, we reviewed three loans and two grants agreements in order to assess the adequacy of provisions contained therein as well as to see if the required approvals were present. The agreements are filed per country, separating loans and grants, and are maintained by the Project Manager. The Project Manager indicated that drafts are maintained in the files until the final is signed by the recipient, at which time the draft is replaced by a copy of the final agreement.

Concerning the grant agreements, the provisions appeared adequate from the standpoint of accountability. Both grants had the required approvals indicated on the attached control sheets. However, despite the fact that they are currently being implemented, the agreements in the files were in draft form.

The provisions included in loan agreements reviewed were adequate from the standpoint of accountability. However, the three reviewed were not uniform in terms of interest rates and terms of payment. All three loans were in draft form, two of which had the required control sheet attached/signed. In addition, only two of the loans had the pagare (promissory note) attached, only one of which was notarized. We could not trace the loans to the status of loans per country included in the quarterly progress report as none of the amounts indicated in the draft loan agreements were reconcilable with those included in the summary report.

5. Accounting Filing System

Reports submitted by each country office to CHF/Washington are filed per reporting month. One folder is prepared for each country office per month. Documents are fastened together (to avoid getting lost) except for the current year's reports and supporting documents. These files are maintained by the Project Accountant and are kept in one steel cabinet.

Copies of SF 272 and SF 269 reports are also maintained. One file folder per month is prepared and these are filed by month. These files are maintained by the Assistant Controller and kept in a separate filing cabinet.

Documents supporting fund transfers to country offices, i.e

memo request of the Project Manager, copies of bank debit or credit advice, are also filed per country office per month for current transaction. At the end of each month, these individual country office files are grouped together and filed as one batch and included in a consolidated file maintained by year. These files are maintained by the bookkeeper and are kept in a cabinet separate from those mentioned above.

X. PRESIDENTIAL TRAINING INITIATIVE FOR THE ISLAND CARIBBEAN (PTIIC)

Implementing Organization: United Schools of America (USA)

Contract Agreement No.: LAC-0640-C-00-6083-00

AID Project Officer: Dave Evans

USA Project Coordinator: Rebecca Adams

Project Duration: September 26, 1986 to September 25, 1989

Amount of Funding: $13,823,432

Method of Payment: Cost plus fixed fee (operating expenses)
Advance (participant expense fund)

Persons Interviewed:

AID:
- Dave Evans, Project Manager
- Carol Becker, Education Officer (IDI), LAC/DR/EST
- Elias Padilla, former Project Manager

PTIIC:
- Rebecca Adams, Project Coordinator
- Carmen Brown, Project Manager/Training Development Specialist
- Pat Pitt-Leacock, Training Development Assistant
- Patty Schrofronick, Training Assistant
- Amparo Rojas, Project Accountant
- Carlos Benitez, President
- Agatha Ogazon, Director of Contracts
- Leslie de la Paz, Controller
- Carmen Rodrigues, former Project Accountant

Report Format:

A. Introduction
B. Scope and Objectives
C. Methodology
D. Organization Overview
E. Project Overview
F. Conclusions and Recommendations
G. Detailed Findings
   1. Reporting System
   2. Cash Management
   3. Internal Controls
   4. Systems and Procedures

A. Introduction

Price Waterhouse was engaged by the Latin America and Caribbean (LAC) Bureau of the U.S. Agency for International Development to assess the financial reporting systems of several organizations implementing LAC Bureau funded projects. One of the projects selected by the LAC Bureau for review because of some concern regarding its financial management was the Presidential Training Initiative for the Island Caribbean (PTIIC) project implemented by the United Schools of America (USA).

An integral part of our review included a visit to USA headquarters in Miami on December 3-4, 1987. We would like to thank the USA staff for their assistance and cooperation in conducting this review, with particular thanks to the project coordinator for arranging all of the logistics.

B. Scope and Objectives

This review covers the financial information and reporting system of USA with the objectives of ascertaining a) compliance with the contract requirements for reporting and b) the adequacy of information provided in terms of management oversight. The review is also aimed at providing assurance to the AID Project Officer as to the quality and timeliness of financial information supplied by USA as well as to the adequacy of USA's overall internal controls and systems and procedures in this regard. Based on our findings, recommendations will be developed to enhance the information and reporting system by implementing organization as well as to improve the LAC Bureau's contract monitoring system.

Our review does not constitute an audit of the project or USA and therefore an opinion will not be rendered. In addition, this review does not constitute a technical evaluation of the project.

C. Methodology

In order for us to make a meaningful assessment of the financial reporting system, consideration was given to areas directly and indirectly related to the generation of financial information. We designed a comprehensive work program that included an appraisal of the organization's internal controls (segregation of duties and approval of transactions) and systems and procedures (recordkeeping, disbursement, subcontracting and cash management) in order to put our review of the financial reporting system into the proper framework. Also included in the program was a review of the project history as well as the nature of the organization's relationship with AID and other donors.

In conducting the review, various methodologies for fact

finding were employed. These included interviewing of staff at USA headquarters both directly and indirectly involved in the project at USA headquarters and in their Washington, D.C. office. In addition, records maintained for the project were assessed and several transactions were selected for review with regard to documentation requirements for payment. All of the requests for payment submitted by the subcontractor were reviewed for supporting documentation and timeliness of USA response.

In terms of reporting, we reviewed and analyzed the financial reports (vouchers and accompanying detail) submitted to AID/M/FM/PAFD and the project status report and accompanying financial information provided to the LAC Bureau to determine compliance with contract requirements as well as adequacy of information provided to AID. In addition, information presented in these reports was traced to source of said information.

D. Organization Overview

The United Schools of America, established in 1978, is an "8(a)" firm specializing in the development of intensive, short-term training courses in such areas as agriculture, private sector development, public administration, leadership development, education, journalism and public health. It is headquartered in Miami, with offices in Washington, D.C., Ecuador, Costa Rica and El Salvador, and employs over 60 professionals. International and domestic organizations to which USA has provided its services include the Organization of American States, the Peace Corps, the U.S. Agency for International Development, the U.S. Department of Housing and Urban Development, the U.S. Air Force, and the National Institute for Education.

The Presidential Training Initiative in the Island Caribbean (PTIIC) project is USA's largest contract, totaling over $13 million. Other significant projects currently in progress include a $3.6 million contract with the National Institute of Mental Health, a 30 month water management project for USAID/El Salvador ($2.6 million), and a Peace Corps/Jamaica contract for $1.4 million.

E. Project Overview

The PTIIC project is under the LAC Bureau umbrella project CLASP (Central and Latin America Scholarship Program). The goal of PTIIC is to increase understanding and personal contact ("Experience America") and technical exchange between the U.S. and the Caribbean countries of Haiti, Dominican Republic, Jamaica and the island countries served by the Regional Development Office for the Caribbean (RDOC). The program's objective is to increase scholarship opportunities for the disadvantaged and those of proven leadership qualities as a way of increasing the

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participation of these groups in the development of their countries.

The contract was awarded by AID to the Small Business Administration (SBA), which in turn contracted the United Schools of America to fulfill and perform all of the requirements of the contract on behalf of the SBA. The purpose of the subcontract with USA is to provide management of the U.S. based participant training activity on behalf of AID/W and the benefitting AID Missions. This subcontract is administered on behalf of the SBA by the LAC Bureau.

The PTIIC project includes several principal parties. The AID Missions are the prime program designers and implementors for their respective countries, and are responsible for determining the target populations to be served, defining the selection criteria, screening candidates, and providing final approval on placements suggested by the contractor. The contractor (USA) is responsible for identifying educational/training institutions and providing all of the logistical support associated with bringing a participant from the Caribbean to live/study in the United States. In addition, as part of the "Experience America" objective, the contractor is responsible for developing a support system for all participants and creating professional, social and cultural enrichment opportunities aimed at helping participants gain an appreciation of the U.S. as well as form lasting linkages of both a professional and personal nature. AID/Washington (the LAC Bureau) is responsible for the overall monitoring of the contractor's activities, particularly the financial management of the project.

To assist in the implementation of this contract, USA in turn has subcontracted Creative Associates International. Each firm has a training development team responsible for all participant placement and support activities. These responsibilities are divided by region: USA is responsible for Haiti and Jamaica whereas Creative Associates is responsible for the Dominican Republic and countries served by RDOC. USA coordinates the overall program operations and administration through its Project Coordinator, who is located in the firm's Washington, D.C. office.

The funding for the project is provided by the LAC Bureau and the related USAID Missions through PIO/Ts incorporated in the principal contract. Funds are disbursed by AID/M/FM/PAFD. The Budget is divided into operating expense funds, which are disbursed on a reimbursement basis, and participant training funds, which are advanced to the project based on program needs. Reporting and Recordkeeping of these funds are discussed in detail in the sections below.

The USA staff involved in the project include a Project

Coordinator and soon to be hired administrative assistant (based in Washington, D.C.), and a Project Manager/training development specialist, training development assistant, training administrative assistant and project accountant, all based in Miami. The Project Coordinator indicated that she will be revising job descriptions to both clarify responsibilities as well as reallocate them.

For project management purposes, the Project Coordinator indicated that she hopes to move the project team to Washington, D.C. As a critical component of the project is the accounting, tracking and monitoring of program expenditures, the project accountant should be included in the staff relocation to Washington, D.C. in order to be under the direction of the Project Coordinator. In addition, if the decision to relocate is confirmed, the "overhead" and "other direct costs" current budget-line items should be reevaluated and modified appropriately.

A principal problem in project implementation to date has been the lack of leadtime provided by the Missions to the contractor for arranging a participant's program. This has resulted in several potential problem areas in project implementation. The principal role of the contractor is to identify the most appropriate institution to meet the participant's needs and to provide a cost effective budget. However, a lack of leadtime does not allow the contractor to "shop around for the best buy. In addition, as indicated above, a major emphasis of the project should be to "Experience America". Persons interviewed suggested that this objective has not been fully realized in each program. Given the limited leadtime, the trainers are no doubt concentrating on arranging all essential logistics, thereby not having time to create the cultural enrichment portion of the program. Finally, from a financial management perspective, a lack of leadtime does not facilitate sound cash management of program funds on the part of the contractor.

A case in point is a recent request received from the Haiti Mission in December, 1987 for the placement of 40 longterm participants scheduled to arrive in January, 1988. According to the Project Coordinator, limited was provided with regard to the type of training requested for each participant. In addition, this request arrived right before the Christmas holidays, during which time most educational institutions are closed. Thus the contractor is faced with identifying the appropriate institutions which might be able to provide the desired training (once the Mission has notified them of the participants' training needs), creating 40 training budgets, soliciting proposals from institutions (ideally, three proposals per participant), submitting the proposals to the Haiti Mission and receiving final approval through PIO/Ps and finally, arranging all logistics for

the forty participants (health insurance, airplane tickets, tuition and fees, lodging, per diem checks) and receiving funds from AID to pay for them, all of which must be completed within a month.

Another problem area in project implementation concerns providing participant support. Some of the current and former staff interviewed indicated that disbursements to participants for per diem and winter clothing allowance have been untimely, leaving several participants with insufficient funds for a period of time.

These problems in project implementation may be the result of inadequate understanding of the roles to be played and responsibilities assumed by the concerned parties. As indicated, the PTIIC project has several principal parties, each meant to have a unique role and each dependent upon the other for successful project implementation. Moreover, each has separate reporting requirements. In AID/W alone, reports are required by OP/OS/LAC, LAC/DR/EST, M/FM/PAFD and S&T. We have observed problems in understanding some of these reporting requirements.

Given the complex nature of the project including the reporting requirements and above identified problems in project implementation, a project evaluation should be considered. Once a project evaluation has been completed, a formal memorandum of understanding between each Mission and USA (or Creative Associates) should be created, outlining the Mission's and the contractor's responsibilities and indicating the role to be played by the LAC Bureau. Such an agreement should include the amount of leadtime required by the contractor for participant placement. This is essential not only for proper placement but for sound cash management by the contractor.

F. Conclusions and Recommendations

As a result of our review, our general observations and recommendations are as follows:

(1) An audit of USA's records of the PTIIC project should be performed.

Our brief review of this project suggests that, at a minimum, the recordkeeping systems of USA are inadequate to comply with the financial and reporting requirements of their contractual arrangement with AID. Inadequate internal controls, untimely recordkeeping, apparent cash management shortcomings (including handling of AID cash advances), and reports which do not reconcile all point to the immediate need to perform a comprehensive audit which would clearly define the present problems, quantify disbursements and advances, if any, which may be inappropriate and develop comprehensive recommendations for

improvement of USA's present recordkeeping systems and procedures.

We understand that AID has taken steps to implement this recommendation for a financial audit and has instituted actions designed to thoroughly analyze the advance account.

(2) A project evaluation should be performed.

Our brief review suggests several problem areas in project implementation, in particular, the leadtime provided by Missions for participant training and timeliness of participant support. Given the complex nature of the project including the reporting requirements, we recommend that a project evaluation be performed. Such an evaluation should include a reassessment of the roles and responsibilities of all principal parties. In addition, all of the reporting requirements should be reviewed to clarify what information is required and by whom. Such an evaluation is timely given that the project is reaching its midway point. Once a project evaluation has been completed, we recommend that a formal memorandum of understanding between each Mission and USA (or Creative Associates) be created, outlining the Mission's and the contractor's responsibilities and indicating the role to be played by the LAC Bureau. Such an agreement should define the amount of leadtime required by the contractor for participant placement. This is essential not only for proper placement but for sound cash management by the contractor.

Our conclusions and recommendations regarding reporting, cash management, internal controls and systems and procedures are summarized below.

1. Reporting

a. LAC/DR/EST

Our findings indicate that the quarterly report currently submitted to the AID Project Officer is completed according to AID instructions and is in compliance with contract provisions. However, we believe its format is cumbersome and the information inadequate for management oversight. The report is over 100 pages long, and focuses on micro financial information rather than providing an overall picture of the project. We therefore offer the following recommendations to improve the quarterly report.

(1) Eliminate the Schedule As from the report.

Currently, the report includes a detailed record per participant/program listing expenditures by budget line item. Such information is critical for internal recordkeeping and day-

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to-day management of the project. However, it is not necessary or adequate for AID management oversight. We therefore recommend that USA and the subcontractor continue to maintain Schedule A records for internal use but that these be summarized for inclusion in the quarterly report (see recommendation 3).

(2) Submit the Participant Cost Reports (PCR) under separate cover.

Currently, the report includes PCRs per participant which provide detailed financial information similar to the Schedule As and program/participant information, such as the name of the training institution and an appraisal of the participant's performance. Such information is not necessary for management oversight on the part of the AID Project Officer. We recommend that the PCRs be excluded from the quarterly report and submitted under separate cover to the appropriate AID office. The AID Project Officer should assist USA in identifying which office requires this report.

(3) Modify the current schedules in the quarterly report for clarity and management oversight.

Currently, the report includes two other schedules in addition to the Schedule A and the PCR. Schedule B indicates USA's and the subcontractor's administrative expenses, and Schedule C includes the status of Mission funds. Both schedules are difficult to read and do not provide adequate information for management oversight. As indicated above, Schedule A provides information only at the most detailed level. We therefore recommend that these schedules be modified as indicated in Exhibits 1 through 6. The revised report formats will provide sufficient information for management purposes while streamlining the financial information from over 100 pages to 8.

Exhibit 1, entitled "Summary of Expenditures", presents at the highest summary level administrative expenses and participant costs, comparing past and current expenditures and indicating the remaining balance. Thus, one can determine at a glance total current period expenditures and budget remaining.

Exhibit 2, entitled "Participant Fund: Status of Advances", presents information as to the status of the participant fund. In addition, it presents information on the status of advances obtained by the subcontractor. Such information is essential for monitoring the cash management of the project. Currently, no such information is provided in the quarterly report.

Exhibit 3, entitled "Supplemental Schedule 1 - USA Administrative Expenses", is a detailed report of USA's operating expenses and is meant to support the first report, the Summary of

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EXHIBIT 1

P.T.I.I.C.
SUMMARY OF EXPENDITURES
REPORTING PERIOD: XX/XX/XX - XX/XX/XX

	CONTRACT APPROVED BUDGET (1) (a)	PRIOR PERIOD DISBURSEMENTS (b)	CURRENT PERIOD DISBURSEMENTS (c)	TOTAL DISBURSEMENTS TO DATE (b+c)	REMAINING BALANCE (a-(b+c))
ADMINISTRATIVE EXPENSES (2)					
PARTICIPANT COSTS (3)					
TOTAL EXPENDITURES					

Notes:
1. represents budget for 18 months as indicated in the contract
2. breakdown provided in Supplemental Schedules 1,2
3. breakdown provided in Supplemental Schedules 3,4,5,6,7

EXHIBIT 2

P.T.I.I.C.
PARTICIPANT FUND: STATUS OF ADVANCES
REPORTING PERIOD: XX/XX/XX - XX/XX/XX

	BEGINNING CASH ON HAND (a)	CURRENT PERIOD CASH ADVANCES (1) (b)	TOTAL CASH AVAILABLE (a+b)	CURRENT PERIOD PARTICIPANT DISBURSEMENTS (2) (c)	CURRENT PERIOD DISBURSEMENTS TO SUBCONTRACTOR (3) (d)	ENDING CASH BALANCE (a+b)-(c+d)
USA (4)						
CREATIVE (5)					N/A	
TOTAL REMAINING CASH BALANCE						

Notes:

1. Represents actual cash received; should be accompanied by a footnote indicating cash advances requested but not received.
2. These totals should be obtained from Supplemental Schedule 3, which shows current period disbursements for USA (Haiti, Jamaica) and the subcontractor (DR and RDOC).
3. This should equal the disbursements indicated on the SF 1034s submitted to M/FM; this should also equal Creative's current period advance.
4. Represents money received from AID.
5. Represents money received from USA.

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P.T.I.I.C. EXHIBIT 3
SUPPLEMENTAL SCHEDULE 1
USA ADMINISTRATIVE EXPENSES
REPORTING PERIOD: XX/XX/XX - XX/XX/XX

	CONTRACT APPROVED BUDGET (1) (a)	PRIOR PERIOD DISBURSEMENTS (b)	CURRENT PERIOD DISBURSEMENTS (2) (c)	TOTAL DISBURSEMENTS TO DATE (b+c)	REMAINING BALANCE (a-(b+c))
SALARIES AND WAGES (3)					
Project Coordinator					
Project Manager					
Training Specialist					
.....					
Technical Assistance					
TOTAL SALARIES AND WAGES					
FRINGE BENEFITS					
TRAVEL AND PERDIEM (4)					
OTHER DIRECT COSTS (5)					
EQUIPMENT (6)					
SUBCONTRACT					
G&A					
TOTAL ADMINISTRATIVE COSTS					
FIXED FEE					
GRAND TOTAL (7)					

Notes:
1. Budget is for 18 months.
2. Should reflect actual administrative expenses. Should equal the SF 1034s submitted to M/FM for the same reporting period.
3. Should be broken down to indicate who is charging time to the project.
4,5,6. Do not need to be broken down further since SF 1034s will have breakdown.
7. This should reconcile with administrative expenses in the Summary Expenditures Report (Exhibit 1).

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EXHIBIT 4

P.T.I.I.C.
SUPPLEMENTAL SCHEDULE 2
SUBCONTRACTOR ADMINISTRATIVE EXPENSES
REPORTING PERIOD: XX/XX/XX - XX/XX/XX

	CONTRACT APPROVED BUDGET (a)	PRIOR PERIOD DISBURSEMENTS (b)	CURRENT PERIOD DISBURSEMENTS (c)	TOTAL DISBURSEMENTS TO DATE (b+c)	REMAINING BALANCE (a-(b+c))
BUDGET LINE ITEMS					
.....					
.....					
.....					
.....					
.....					
.....					
.....					
.....					
.....					
.....					
.....					
.....					
.....					
.....					
TOTAL					

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EXHIBIT 5

P.T.I.I.C.
SUPPLEMENTAL SCHEDULE 3
PARTICIPANT COSTS: EXPENDITURES BY COUNTRY
REPORTING PERIOD: XX/XX/XX - XX/XX/XX

	MISSION OBLIGATIONS (1)	APPROVED BUDGETS (2)	CURRENT PERIOD DISBURSE-MENTS	CURRENT PERIOD ACCRUED EXPENSES	TOTAL TO DATE DISBURSE-MENTS	TOTAL TO DATE ACCRUED EXPENSES	REMAINING BUDGET BALANCE (3)	REMAINING OBLIGATED FUNDS (4)
	(a)	(b)			(c)	(d)	b-(c+d)	(a-b)
USA								
HAITI								
JAMAICA								
SUBCONTRACTOR (5)								
DOMINICAN REPUBLIC								
RDOC								
TOTAL (6)								

Notes:
1. Obligations are defined in the PIO/Ts.
2. Represents budgets approved via cable and/or PIO/P.
3. Represents the balance of funds remaining in the participant budgets.
4. Represents the remaining balance which is unprogrammed.
5. These are costs incurred by Creative which may not have been reimburseed by USA.
6. Reconciles with participant costs in the Summary of Expenditures.

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EXHIBIT 6

P.T.I.I.C.
SUPPLEMENTAL SCHEDULE 4
PARTICIPANT COSTS: HAITI
REPORTING PERIOD: XX/XX/XX - XX/XX/XX

			CURRENT PERIOD		TOTAL TO DATE		REMAINING
		APPROVED BUDGETS	DISBURSE-MENTS	ACCRUED EXPENSES	DISBURSE-MENTS	ACCRUED EXPENSES	BUDGET BALANCE
PROGRAM NAME	PIO/P NUMBER	(b)			(c)	(d)	b-(c+d)
.....	.....						
.....	.....						
.....	.....						
.....	.....						
TOTAL (1)							

Notes:
1. Total line goes to Supplemental Schedule 3.

Expenditures. It depicts on one page the approved budget, disbursements and remaining balance by budget line item.

Exhibit 4, entitled "Supplemental Schedule 2 - Subcontractor Administrative Expenses", is a summary report of the subcontractor's operating expenses. The AID Project Officer should review this report to determine what is being charged by the subcontractor to the project.

Exhibit 5, entitled "Supplemental Schedule 3 - Participant Costs: Expenditures by Country" provides a summary by Mission of obligations, approved budgets, disbursements and remaining balances. The information in this report is meant to support the first report, Summary of Expenditures.

Exhibit 6, entitled "Supplemental Schedule 4 - Haiti", is the most detailed report that should be provided to LAC. It includes for each Haitian program/participant the approved budget, disbursements and remaining balance. It is based on the Schedule A records which present information by budget line item. However, rather than including all of the Schedule As in the report, this summarizes them to show totals per program/participant and for the country. <u>One such supplemental schedule should be done for each country covered by the PTIIC project.</u>

These schedules should be incorporated in the new automated recordkeeping system on DBase III. They should be reviewed by the Project Coordinator before being submitted to the LAC Project Officer.

b. M/FM/PAFD

Our findings indicate that there are two sets of reporting requirements for M/FM/PAFD, one for project operating expenses (OE) and one for participant fund expenses (PFE). In terms of operating expenses, our findings indicate the that required SF 1034 vouchers have been submitted on a regular basis. However, we believe certain improvements should be made to the information submitted.

(1) <u>The SF 1034 for OE should reconcile with the financial information provided to the LAC Bureau.</u>

The SF 1034 vouchers submitted during the quarter April 1 through June 30, 1987 do not reconcile with the financial information provided to the LAC Bureau for the same period. We recommend that procedures be instituted for ensuring that all information presented for a particular period be reconcilable among the various reports.

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(2) The SF 1034 for OE should provide a breakdown within budget line item.

The breakdown currently provided on the SF 1034 does not provide information within budget line item. We recommend that the breakdown be modified to provide detailed information on salaries and wages, per diem and travel, equipment and other direct costs. Such information is essential for the AID Project Officer to justify his/her certification of the voucher.

(3) Any modifications in costs reported on the SF 1034 (OE) should be indicated with a footnote.

Currently, costs reported may reflect undercharging or overcharging because of previous errors made. As a result, it is difficult to reconcile reported costs to the source information. We recommend that any modifications to actual costs be explained in a footnote to the voucher.

(4) The Project Coordinator should approve the SF 1034 (OE) before submission to M/FM/PAFD.

To date, the SF 1034 has not been approved by USA project management before submission to AID. We recommend that the Project Coordinator's approval of the voucher be required before submission as she should be the person most knowledgeable about the project and its expenses.

In terms of participant fund reporting to M/FM/PAFD, our findings indicate that it is inadequate for management oversight and is not in compliance with contract provisions. In addition, financial information presented is difficult to trace to the source of said information. This may be a result of poor recordkeeping practices for the participant fund. We provide the following recommendations to improve the reporting of this fund:

(5) The amount received from AID to date should be confirmed and the reports modified accordingly.

In our review of the SF 1034s submitted to request advances, we observed that the amount reported as advanced to date on the last voucher submitted by USA (9/22/87) does not reconcile with the sum of the advances requested on the previous vouchers. Project staff indicated that this may be a result of a mathematical error. We recommend that the amount received from AID to date be confirmed and that the vouchers and records modified accordingly.

(6) Requests and liquidations of advances should be done on a monthly basis, for a thirty day period only.

Our findings indicate that requests for advances are submitted for disbursements which will not be made within the thirty day limit as required in the contract. In certain cases, requests are submitted for programs which appear to be cancelled, indefinitely postponed, completed or not yet in existence. As of 9/22/87, the cash on hand for the participant fund totaled $1,195,971.68. We also observed that liquidation of advances are not done for a thirty day period as required but are presented in one lump sum on the SF 1034 for PFE. Finally, vouchers are not submitted on a monthly basis as required. We recommend that advances be requested and provided only for immediate disbursement needs, defined as within the next thirty days. In addition, the liquidation of these advances should be done for the previous thirty days and not in one lump sum. Finally, submissions to M/FM/PAFD should be made on a regular (monthly) basis. Regular submissions and monthly reporting will facilitate sound cash management of the project.

(7) Detailed information provided to justify advances should be expanded.

Currently, the information provided to justify the need for advances is insufficient. The program/participant for which funds are requested is not clearly identified. In addition, the financial information presented consists of the approved budget, total disbursements and remaining cash needed, the last item reflecting cash needed for the life of the project. We recommend that the information be expanded to include the program/participant name, PIO/P number, the total budget, the amount spent to date and the amount expected to be spent in the next thirty days.

(8) Advances and liquidations of the subcontractor should be highlighted.

Currently, advances to the subcontractor are not highlighted on the SF 1034 for PFE as required under the contract. We recommend that both advances and liquidations be clearly indicated to enable AID and USA project management to review the cash management of the subcontractor.

(9) The Project Coordinator's approval of vouchers should be required prior to submission.

To date, the Project Coordinator has not reviewed or approved the vouchers submitted to M/FM/PAFD to request advance funding. We recommend that all such vouchers pass through the

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Project Coordinator for approval. As the Project Coordinator should assume responsibility for the fiscal management of the project, all financial reports should be approved by her before being submitted to M/FM/PAFD.

(c) Other reports

There are three other reporting requirements which are not currently met. These include:

- o a certified balance sheet and report on the operation of the special bank account of the participant fund, to be submitted semi-annually to OP/OS/LAC
- o a Participant Data Form to be submitted to S&T/IT quarterly
- o participant data to be entered into the CIS, the management information system for the CAPS and LAC II Training programs, on a monthly basis.

We recommend that the AID Project Officer, as contracts administrator, assume responsibility for ensuring that these requirements are met. The Project Officer should meet with the appropriate AID offices to confirm the financial information required and then provide guidance to USA to assist them in complying with these contract provisions.

2. Cash Management

(a) Participant Fund

Our findings indicate that cash management for the participant fund is inadequate. Funds are requested for disbursements to be made beyond the thirty day limit stipulated in the contract. As of 9/22/87, the cash balance totaled $1,195,971.68. The only record maintained to monitor the status of the participant fund is the monthly bank reconciliation. We provide the following recommendations to improve the cash management of the participant fund:

(1) A weekly cash status report should be prepared.

Currently, there is no report prepared which shows the status of the participant fund with the exception of the reconciled bank statement. We recommend that a cash status report be prepared by the project accountant on a weekly basis and provided to the Project Coordinator, the Controller and the Contracts Director. Such a report should include the week's receipts, disbursements and remaining balance. Once the automated

recordkeeping system is installed, this report should be generated automatically as check payments are issued.

(2) Any additional advance requests should be denied until the cash balance is at a level determined appropriate for project needs.

Currently, the cash balance appears to be considerably greater than disbursements which may be made during the next few months. We recommend that no additional advances be authorized until such time as the balance is decreased to an appropriate level.

(3) Procedures should be formalized for monitoring the cash advances to the subcontractor.

To date, cash advances to the subcontractor have not been approved by project management but were handled by the Project Accountant. It remains unclear to what extent the advances are monitored by USA. In reviewing the reports, it appears that requests are submitted for disbursements to be made beyond the thirty day limit. We recommend that procedures be instituted for monitoring the cash management of the subcontractor.

3. Internal Controls

From our limited review, we have observed that the internal controls at USA with regard to the PTIIC project are inadequate. The Controller, however, has recognized this limitation and is in the process of instituting procedures to strengthen the project's internal controls. Our principal findings and recommendations are as follows:

(1) Responsibilities with regard to both the participant fund and operating expenses should be segregated.

Until recently, responsibilities for processing payments, recordkeeping, bank statement reconciliation, requesting funds and reporting were handled by the former Project Accountant. Currently, the new Project Accountant has taken over some of these duties. We recommend that the USA Controller review all of these functions and reassign them to achieve an appropriate segregation of duties for both participant and operating expenditures.

(2) Approvals for operating and participant expenses should be instituted.

The only approvals currently required are provided by the Project Manager for funds requested by the project training

staff. There are no approvals required for funds requested by the Project Manager, Project Coordinator or Project Accountant for either participant costs or operating expenses. We recommend that approvals be instituted to enhance the internal controls of the project. We suggest that the Project Coordinator approve all requests for funds submitted by the project staff. The Project Coordinator's requests should in turn be approved by a third party. We recommend that this role be assumed by the Contracts Director.

(3) The Contracts Director's role should be expanded.

Currently, the new Contracts Director has limited involvement in the project. However, she has indicated that her involvement will increase once she becomes familiar with the project. We recommend that for internal control purposes, the Contracts Director be given an active role in project implementation. This role would include reviewing and approving reports and disbursements, monitoring the cash management of the project, and ensuring that USA is in compliance with contract provisions.

(4) Authority limits for disbursements should be documented and instituted.

Currently, there are no limits for funds which may be requested by any of the project staff for either operating expenses or participant fund expenses. We recommend that for internal control purposes, such limits be documented and instituted.

Recommended limits for operating expenses are as follows: expenses under $500 may be approved by the Project Coordinator alone; expenses greater than $500 must also be approved by the Contracts Director; expenses greater than $1000 should be approved by the Controller in addition to the Project Coordinator and Contracts Director; and expenses greater than $1500 should be approved by the President.

Recommended limits for participant fund expenses are as follows: expenses under $1000 may be approved by the Project Coordinator alone; expenses greater than $1000 must also be approved by the Contracts Director; expenses greater than $1500 must be approved by the Controller; and finally, expenses greater than $2000 must receive approval from the President.

(5) Authority limits for check signatures should be considered.

Currently, two signatures are required for check disbursements from USA's regular account for project operating

expenses and for disbursements from the special account for participant funds. These signatures are required regardless of the amount of the check. We have observed that disbursements from both funds are often untimely and question whether this is a result of the two signatures required. We recommend that USA consider instituting limits for which two signatures would be required. Given that approvals for disbursements as discussed above will be instituted, two check signatures may not be warranted for checks under a certain amount.

4. Systems and Procedures

As part of our review of systems and procedures, we assessed the recordkeeping of the participant fund and found it inadequate to perform the essential accounting, tracking and monitoring of program expenditures on a per country basis. The recordkeeping system is limited to bank reconciliation statements and Schedule As. The Schedule As are individual records for each participant/program and are created manually on a Lotus spreadsheet. According to the Controller, an automated DBase III recordkeeping system is currently in the design phase and will be implemented in the near future.

It was beyond the scope of this engagement to perform a systems analysis of the DBase III recordkeeping system. We have provided recommendations based on our observations of the current manual system and encourage USA to modify these to fit the new automated system once it is implemented.

(1) <u>The Schedule A should be modified for improved management oversight</u>.

Currently, the Schedule As show cumulative disbursements and remaining balance for each budget line item. We recommend that they be modified to show current month expenditures (disbursements and accruals) and expenditures estimated for the upcoming month. These estimated expenditures should be completed by the Project Accountant after consultation with the training staff and should be the basis for requesting advance funds from AID. We also recommend that the Project Accountant ensure that only one Schedule A for a given reporting period exists. In our review of several files, we noted that in some instances there was more than one Schedule A with the same date, each presenting different financial information.

(2) <u>Unique country codes should be included in each PIO/P number</u>.

We were informed that several participant/program PIO/P numbers to not include a unique country code. We recommend that all of the PIO/P numbers be reviewed and modified as appropriate. Assigning PIO/P numbers with a unique country code is a critical

recordkeeping tool for accurate sorting and reporting of financial information by country. The Project Coordinator indicated that she has taken action in this regard.

(3) A new record indicating totals per country should be maintained.

Currently, there is no record maintained which summarizes financial information by country. We recommend that a country record be incorporated in the DBase III system which will include for each PIO/P the approved budget, current period disbursements and accrued expenditures, cumulative disbursements and accrued expenditures, and remaining balance. This record should be the basis of the revised Schedules (Exhibits 5,6) recommended for the quarterly report. Finally, a copy of this record should be provided to the Project Coordinator and Contracts Director on a monthly basis for monitoring project expenditures.

(4) Completed programs should be closed-out and records adjusted accordingly.

Currently, there are no procedures implemented for closing-out completed programs. As a result, cash balances are maintained and continue to be reported as "funds needed" to AID/M/FM/PAFD. We recommend that procedures be instituted for closing out projects and notifying the appropriate Missions of the balance of funds remaining. The Project Coordinator has indicated that procedures in this regard are underway.

(5) USA should maintain its own records of subcontractor advances and disbursements.

Currently, USA does not appear to maintain any records of subcontractor advances and liquidations with the exception of the reports submitted by the subcontractor. Although further processing of detailed information is not warranted, summary financial information regarding subcontractor activities should be maintained by USA. In terms of cash advances to the subcontractor, we recommend that a monthly record be incorporated in the DBase III system which will track beginning cash balance, receipts, disbursements and ending cash balance. This information can then be consolidated for the recommended quarterly report-Participant Fund: Status of Advances (Exhibit 2). In terms of the subcontractor's disbursements, we recommend that the Schedule As submitted by the subcontractor be summarized in the new record per country discussed in recommendation 3 above.

(6) The completion and implementation of the automated recordkeeping system should be made a priority by USA management.

Design and programming of the automated recordkeeping system

began approximately one year ago and are not yet completed. We recommend that USA management consider this a priority and focus their efforts on ensuring that this system is implemented in the near future. This is critical since in a few months, the project will have reached its mid-term. However, we recommend that the technical assistance in this regard be closely monitored, since to date, timesheets of the consultants have not been reviewed or approved by anyone. In addition, written authorization from AID for technical assistance disbursements has not been obtained as required under the contract. We recommend that such authorization be obtained prior to any additional disbursements to the consultants.

G. Detailed Findings

1. Reporting System

There are several technical and financial reports required under the contract and its amendments. These are discussed below according to the Bureau/Office within AID to which they are to be submitted.

a. LAC/DR/EST

The contractor is required to submit a quarterly report to the LAC Project Officer which includes both technical and financial information. The financial information presented should be according to the final work breakdown structure submitted by USA. In addition, an update on the financial status of each participant training activity should be included. We reviewed the quarterly report for the period ending June 30, 1987.

USA is currently submitting three schedules and a participant/program cost report (PCR) for each participant/program. Schedule A, entitled "Program Cost Breakdown Structure for Proposals", is prepared for each participant/program. It provides a budget breakdown of the training, and includes the budgeted amount, the amount spent for the reporting period, the total spent to date and the remaining balance. Schedule B, entitled "Administrative Cost Breakdown Structure Contract Reporting", provides a breakdown by budget line item of administrative costs incurred during the period. Schedule C, with no title, provides information on the status of

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funds per USAID Mission and includes various supporting schedules listing programs for which funds have been obligated and committed. Finally, the PCR, prepared for each participant/program, includes both program information, such as name of training institution and appraisal of the participant's academic performance, and financial information, such as amount budgeted, expended for the quarter, and expended to date. In total, the schedules and PCR included in the quarterly report exceed 100 pages.

The Schedules As included in the report do not appear to be in any logical sequence, e.g. alphabetically or by PIO/P number. They were prepared by the former Project Accountant from a lotus spreadsheet. We observed that no summary of participant costs is included. Thus to find the total amount of funds disbursed for a given period, one would have to manually add up all of the totals on the individual Schedule As, separating out those for each country. The Schedule As completed by the subcontractor are also included. They are prefaced with a summary sheet prepared by the subcontractor showing totals per country.

As is outlined in the recommendations, these Schedules As are critical for internal recordkeeping and day-to-day management of the project. Currently, they are the only records maintained for the participant fund with the exception of the reconciled bank statement. However, they should not be included in the quarterly report but should be summarized so that totals per program/participant are presented, and are shown by country. Such summary information is more valuable to the AID Project Officer and USA Project Coordinator from a management perspective than are details on how much a single participant spent on items such as books and clothing.

The Schedule B, prepared by the former Project Accountant, has separate charts of quarter expenditures, cumulative expenditures, remaining balance, and total budget for the life of the project. Each budget line item is not broken down but is presented in total. Its current format makes it both difficult to read and to compare disbursed amounts with budgeted amounts. The subcontractor's presents all of the information on one page, facilitating comparison between budgeted and actual expenditures. The subcontractor's Schedule B is supported by a breakdown of activities funded under each budget line item.

We have designed and included as Exhibit 3 an alternate report format for administrative expenses. Financial information is presented on one page and includes budgeted amount, prior period disbursements, current period disbursements, total disbursements to date, and remaining balance.

In reviewing the Schedule B for the above mentioned reporting period, several discrepancies were noted. The figures

reported on the Schedule B did not equal those reported on the monthly SF 1034 vouchers submitted to M/FM/PAFD for the same period. Moreover, the amounts did not reconcile with another Schedule B (an internal record) entitled "Actual Amount" which includes expenses by month from October 1986 to September, 1987. A comparison among these three schedules follows:

	Schedule B (quarterly report)	SF 1034s (April/May/ June)	Schedule B (internal record)
Salaries	$53,972	$54,630.88	$53,971.07
Fringe Benefits	10,208	11,160.15	10,208.09
Travel/Per diem	4,281	2,267.25	4,281.17
Other direct costs	7,621	3,191.74	7,621.29
Equipment	1,109	4,768.85	1,108.73
Subcontracts	68,516	51,829.37	58,564.64
G&A	47,514	44,746.95	47,514.24
Fee	18,326	17,259.53	18,326.92

As can be seen from the figures, with the exception of subcontracts, the internal Schedule B reconciles with the Schedule B included in the quarterly report. In comparing the schedules to the vouchers submitted to M/FM/PAFD, the vouchers report costs greater in salaries, fringe benefits and equipment. In terms of the discrepancies in salaries/fringe benefits, the former Project Accountant indicated that they had overcharged AID in Salaries and Fringe Benefits on the SF 1034s and therefore the next period's 1034s were less than the actual cost. (Yet another Schedule B was produced which showed some handwritten calculations decreasing the salaries to be charged on the following SF 1034s to compensate for the errors.) However, the SF 1034s did not indicate that overcharging/undercharging occurred. In terms of the other discrepancies, particularly the three figures reported as subcontracts disbursements, it is unclear why they exist and which figures are in fact correct.

It is essential that the amounts claimed for reimbursement from AID are reconciled with the amounts reported to the LAC Project Officer, who is responsible for authorizing disbursements. An immediate reconciliation should be performed and the inaccurate reports/vouchers modified. Although we were only able to review submissions for one period, we would encourage that all of the reports and vouchers be reviewed and reconciled. We would also suggest renaming some of the Schedules so that there is only one entitled "Schedule B" for a given period.

Another discrepancy in the quarterly Schedule B concerns the amount indicated for participant costs. This amount does not reconcile with participant costs as claimed on the SF 1034s

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submitted to request advances from AID. According to the former Project Accountant, this amount represents costs incurred when the participants were being funded out of the operating expense general fund rather than the special participant fund established in the Spring of this year. However, this is not clarified in the report.

Regarding Schedule C, the information presented is unclear, particularly with regard to the basis of the "committed" and "obligated" amounts indicated. According to the former Project Accountant, this was prepared by the former Project Coordinator. There is no one currently at USA who has any knowledge regarding this report, e.g. what the figures represent or where the information was obtained. A revised schedule should be created which clearly indicates the status of each Mission's obligated funds, both those committed and uncommitted to a particular participant program. We have included as Exhibit 5 a revised summary report of the status of Mission funds followed by Exhibit 6 which indicates the status of each program on a per Mission basis. These are explained in Section F - Recommendations.

The participant cost reports (PCRs) do not provide any unique financial information not included in the Schedule As. In addition, the staff interviewed indicated that they are unclear for whom the PCRs are prepared. Since the AID Project Officer does not require the PCRs, they should be eliminated from the quarterly report submitted to LAC/DR/EST and bound separately for the appropriate AID office. The AID Project Officer should assist in identifying which office requires them.

In sum, we believe some major modifications are needed in the quarterly report currently submitted to both streamline it and present accurate financial information required for management purposes. Currently, the report is too cumbersome and does not provide adequate information for project monitoring except at the most detailed level, such as a participant's book bill. Our recommendations for revised reporting to LAC/DR/EST including report formats are included in Section F.1 Reporting.

According to the contract, an annual report should also be submitted to the LAC Bureau which provides consolidated financial information and evaluation of activities, progress and lessons learned for the year. We examined the one recently submitted and found that it was a reprint of all of the quarterly reports for the year. As a result, it was over four hundred pages and inappropriate for management purposes.

b. M/FM/PAFD

(1) Operating Expenses

USA is required to submit an SF 1034 as a means for

requesting reimbursement for operating expenses incurred. Our findings indicate that USA submits this voucher regularly on a monthly basis. To date, it has been prepared by the former Project Accountant, although she was replaced by the new Project Accountant in September. It is based on USA's general ledger maintained by the Controller and the firm's bookkeeper. The vouchers are certified by the firm's President. They are not reviewed by the Project Coordinator or Project Manager.

As indicated above, we noted that the vouchers submitted for April, May and June did not reconcile with the quarterly report. If costs do not accurately reflect disbursements for the period indicated in the voucher, footnotes should be included explaining what is being undercharged or overcharged because of previous errors. We also noted that although the vouchers provide a breakdown by budget line item, they do not provide information within budget line item. For example, currently, there is one figure for travel and per diem. This line item should be further broken down to show such information as airfare and destination, number of staff and days for which per diem is charged, and per diem rate used. Such detail is essential for the AID Project Officer to justify his/her certification of the voucher.

We also noted that USA is including disbursements to subcontractors on the SF 1034 although these disbursements have not been made. Rather, the figure reported represents the request for payment submitted by the subcontractor. As the voucher reflects actual disbursements for all of the other budget line items, the subcontractor disbursements should also be on an actual basis. In addition, reporting actual disbursements to subcontractors will enable both the AID Project Officer and the USA Project Coordinator to monitor the timeliness of payments to subcontractors, currently a few months in arrears. (Refer to G.4.d for additional information on payments to subcontractors.)

(2) Participant Costs

Contract Amendment 2 dated March 6, 1987 allowed for the establishment of a special account to support participant costs. This account is to be funded on an advance basis. In order to request advance funds, USA must submit four reports together each month: An SF 1034 indicating the proposed cash needs for participant training for the next thirty days; an SF 1034 liquidating the previous month's advance by indicating expenses incurred for that month; an SF 270 "Request for Advance"; and a one page cash status report. According to the contract, "advances shall be based on immediate disbursement needs, but in no event for costs exceeding a 30 day period." Regarding advances to the subcontractor, these need to be documented on the SF 1034 and deposited in the subcontractor's account upon receipt of the funds.

We reviewed all of the submissions to M/FM/PAFD since the start of the participant fund in March of 1987 and noted that the SF 1034 which should liquidate the previous month's advances liquidates advances in one lump sum. As a result, one cannot compare the previous month's disbursements to advances requested, which is in fact the purpose of the liquidation statement. Moreover, a separate figure for advances to subcontractors is not provided as required but rather included with estimated expenses for the period.

The vouchers have not been submitted once a month as stipulated in the contract. As of this review the submissions were on March 24, May 15, June 19, June 26, July 7 and September 22. The vouchers were prepared by the former Project Accountant and were not approved by the Project Coordinator, who should assume responsibility for the fiscal management of the project. The vouchers were certified by the firm's President.

In our review of the SF 1034s, we observed that on the last voucher submitted by USA, dated 9/22/87, USA had a beginning cash balance in the amount of $1,195,971.68. We also noted that on the same voucher, the amount reported as advanced to date ($2,932,629.78) does not reconcile with the sum of the advances requested on the previous vouchers ($2,726,725.45). The former Project Accountant indicated that this discrepancy may be a result of a mathematical error. We could not validate this since there are no deposit receipts filed with the vouchers. An immediate reconciliation should be performed to determine exactly how much money has been advanced by AID.

All of the vouchers except the first two are supported by a breakdown of programs which defines the programs and lists budgeted amounts, cumulative expenditures and funds needed. The funds needed per program represent the difference between budgeted and disbursed amounts. As new program budgets are added or existing ones modified and additional disbursements incurred, a new balance of funds needed is generated. It is this balance which is the basis for requesting advances. Although each schedule indicates that this balance represents funds needed for the next thirty days, in reality many of these funds are not expected to be disbursed for many months. The former Project Accountant indicated that advances are generally requested beyond disbursement needs for the 30 day period since M/FM/PAFD is generally late in responding to these requests.

The program breakdown does not include a full description of each participant/ program or a listing of the PIO/P numbers. Such information would facilitate tracing to the source information.

According to the former Project Accountant, the information on this supporting schedule is obtained from the individual Schedule As maintained for each participant/program, which

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present estimated budget and disbursed amounts. We selected several program/participant files and reviewed all of the Schedule As in order to trace them to the information submitted in USA's requests for advances (hereafter referred to as vouchers). From the records available, it appears that the cumulative disbursements reported on the vouchers do not reconcile with the Schedule As (the source document) and that cash advances are being requested for programs which have been cancelled or postponed, for programs which have been completed and all disbursements made, for potential programs to happen sometime in the future and under program line items which are unclear and appear repetitive. These observations may be a result of poor recordkeeping practices employed for the participant fund.

The participants/programs we traced and our specific findings are as follows:

o "110 Jamaican Sportsman"

$150,000 was originally requested on the 6/22/87 voucher and presented as funds needed through the last voucher submitted on 9/22/87. According to an internal report , the program was cancelled in the latter part of July.

o "15 Journalists TV Production"

The disbursements claimed on the voucher dated 9/22/87 total $57,664 with funds needed totaling $6,336 (the budget was $64,000). The disbursement amount included in the source document - the Schedule A - in the program's file does not reconcile, but is $53,944 for the periods ending 9/30/87 and 10/30/87. In addition, as the project ended in the beginning of September it does not appear that more funds were needed. However, as will be further discussed in the recordkeeping section, USA is not implementing any procedures for closing out completed projects. This results in maintaining a cash needed balance on each project even after it has been completed.

o "20 Journalists Jamaica"

The cumulative disbursements claimed on the voucher dated 7/7/87 total $33,028 and those claimed on the subsequent voucher dated 9/22/87 are less, totaling $18,120. However, there is no indication why disbursements decreased. In reviewing the files, we found two schedule As, both dated 6/30/87. One indicates expenses to be $33,028 (this equals the 7/22/87 voucher) and the other indicates expenses to be $81,488. Thus there are three cumulative figures representing total disbursements and it remains unclear which is the accurate one.

The amount indicated as funds needed on the 9/22/87 voucher

is the difference between the budgeted amount ($86,000) and the disbursed amount ($18,120), namely, $67,880. As the program was completed in August, a closing out should have been performed and the remaining cash balance adjusted.

o "50 Teachers Jamaica"

The disbursement amount reported on the vouchers submitted reconciles with the Schedule A. However, although the program was completed in August, the 9/22/87 voucher indicates funds needed to be $11,409, which is the difference between budgeted and disbursed. Once again, a closing out of the program should have been recorded.

o "Estimate for Jamaica"

$198,100 was requested as funds needed on the 9/22/87 voucher. This figure represents an estimate of potential programs which might take place sometime in the future. The number and/or type of programs are not indicated. It does not appear that these potential programs will take place within the thirty day advance limit.

o "Estimate for Haiti"

This also represents potential programs which might take place in the future. The advance requested in this regard was $129,500 on 6/22/87, $232,690 on the second voucher submitted on 6/22/87, $85,793 on 7/7/87 and $135,793 on 9/22/87. There is no indication why the amount keeps changing, what it is based on, what these potential programs may be or when they might take place.

o "Women Entrepreneurs"

$60,000 is cited as funds needed on the vouchers submitted on 7/7/87 and 9/22/87. According to the former Project Coordinator, the program was indefinitely postponed in mid-July because of the political problems in Haiti during that time.

o "Political Campaigns"

$61,899 is cited as funds needed on the vouchers submitted on 7/7/87 and 9/22/87. This Haitian program was also indefinitely postponed in mid-July, according to the former project coordinator.

o Long term Participants

There are a number of entries for long term participants on the 9/22/87 voucher, namely:

o "15 Long Term"

- o "Long Term (Spring 1987)
- o "Long Term (Fall 1987)"
- o "Long Term (Summer)"
- o "Long Term Fall"

We were unable to trace these to any Schedule As since no participant/program names or numbers are indicated. It therefore remains unclear how many participants are included in each entry, what the basis for the reported figures is, why an advance is being requested in the September, 1987 for the previous spring when no disbursements are indicated (e.g. it is not for reimbursement), what years are referred to in the last two categories, and most importantly, what the relationship is among these entries (e.g. are they for the same participants). The amount requested as an advance for all these entries totals $526,091. Given that there are approximately 10 long term students currently in the U.S., it appears unlikely that this amount will be disbursed in the near future.

c. OP/OS/LAC

Amendment 2 of the Contract stipulates that on a semi-annual basis, a certified balance sheet and report on the operation of the special bank account of the participant fund advances should be submitted to OP/OS/LAC. Since the fund was established in March, 1987, the first report should have been submitted in September, 1987. According to the former Project Accountant and Controller, no such report has been submitted as of the date of this review. Such information would be valuable for cash management purposes.

d. S&T/IT

The contract stipulates that a Participant Data Form (PDF) for each participant is to be submitted to S&T/IT on a quarterly basis. According to the project staff, no PDF had been submitted to date.

e. Other

The contract stipulates that at a minimum of once a month, participant data must be entered into the CIS, the management information system for the CAPS and LAC II Training programs. The project staff interviewed indicated that they were unfamiliar with this requirement and have not completed it to date. In a discussion between an LAC/DR/EST Project Officer and staff person with Checchi, the firm performing the ongoing evaluation of the LAC Bureau training programs, the latter indicated that USA must

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submit evaluation data based on exit interviews conducted with the participants. However, the LAC Project Manager indicated that the training institution was supposed to submit the evaluation data to Checchi. The Checchi staff person also indicated that financial information regarding each participant/program should be entered into the CIS system by the respective USAID Mission.

It appears that there is some confusion regarding the information requirements of the CIS. The AID Project Officer should investigate this matter to determine the responsibilities of USA, the training institutions and the Missions and should formally (in writing) notify each of his findings. In addition, this should be included in the memorandum of understanding with each Mission.

2. Cash Management

A separate bank account is maintained for the advances received from AID for participant costs. A bank reconciliation is performed monthly by the Project Accountant. To date, this has not been reviewed by the Project Coordinator or the Controller. We would encourage the Project Coordinator and Controller to be kept informed of the status of the fund on a regular basis. They should review the bank reconciliations performed by the Project Accountant and should be provided weekly cash status reports.

The funds which are requested from AID appear to be for disbursements to be made well beyond the thirty day disbursement requirement for advances as stipulated in the contract. This is done because of the delay in the processing of requests at M/FM/PAFD. The cash on hand reported on the voucher submitted to AID on 9/22/87 totaled $1,195,971.68.

It remains unclear to what extent the cash advances to the subcontractors for participant costs are monitored by USA. However, in reviewing the requests for advances submitted by the subcontractor, it appears that they are also requesting funds for disbursements to be made beyond the thirty day maximum limit.

The annual report submitted by USA indicated that the 30 day limit for advances was not sufficient to cover costs and recommended it be extended to 90 days. We would not encourage the extension of this limit until such time as a sound cash management system is established for monitoring actual disbursements, advances received and disbursements needed for a specific time period, and until the advance balance of $1,195,971.68 reported in September, 1987 is decreased by an amount deemed appropriate.

In terms of operating expenses, these are disbursed from USA's own funds and vouchers are submitted to AID for reimbursement. Payments to the subcontractor for administrative

expenses are from this fund. In our review of all of the check receipts from USA's operating expense account, the last payment we were able to find to the subcontractor was on September 26, 1987 although subsequent vouchers have been submitted by the subcontractor on September 10, October 9 and November 13. In general, payments to the subcontractor have ranged between 50 and 73 days after the invoice was submitted to USA, although the contract stipulates that payment must be made within 30 days. It remains unclear as to whether this is due to a cash management problem or an inefficiency in payment processing.

3. Internal Controls

a. Segregation of Duties

Regarding the participant fund account, until quite recently there was no segregation of duties. The responsibilities for processing payments, recordkeeping, bank statement reconciliation, requesting funds and reporting were handled by the former Project Accountant. It appears that the former Project Coordinator played a limited role with regards to this account. Currently, the new Project Accountant is performing the recordkeeping, processing of payments and bank statement reconciliation functions. Responsibility for reporting and requesting advances has remained with the former Project Accountant.

Regarding project operating expenses, it was indicated that responsibilities for processing payment, recordkeeping and bank statement reconciliation are handled by the two staff persons (Controller and bookkeeper) who handle all of USA funds. However, to date, the reporting of project administrative expenses to AID has been handled by the former Project Accountant.

b. Approval of Expenses

Regarding the participant fund, the Project Manager approves check requests submitted by the training staff for participant costs with regard to programs implemented by USA. No one approves requests submitted by the Project Manager. In addition, no limits have been set on amounts which may be approved by the Project Manager with regard to this fund. Neither the Project Coordinator or manager approve disbursements from this fund to the subcontractor for its participant costs. To date, it appears this has been done by the former Project Accountant.

Regarding project operating expenses, the Project Manager indicated that she approves the time sheets and expense reports of the training development assistant and training administrative assistant. It does not appear that anyone has in the past or is currently approving the timesheets or expense sheets of the

Project Coordinator, Project Manager, Project Accountant or the individuals working on the design and installation of the project's automated recordkeeping system. To date, the Project Coordinator has not been involved in the approval process with regard to project operating expenses. It is unclear who has been involved in the approval process in addition to the former Project Accountant with regard to procurement of equipment and supplies, payments to subcontractors for operating expenses and other direct costs.

The Controller has indicated that she will be instituting approval procedures in order to strengthen USA's internal controls.

c. Check signatories

Both the special account for participant funds and USA's regular operating expense account require two signatures on each check, regardless of the amount. Currently, the check signatories are the President, the former Controller and a member of the Board of Trustees. The current Controller indicated that she will soon be replacing the former Controller's signature with her own.

e. Audit

USA's financial statements were audited by a certified public accountant in June, 1987 and an unqualified opinion was rendered. The accountant, who has performed bookkeeping for USA, is the recently hired Controller.

4. Systems and Procedures

a. Recordkeeping

Recordkeeping for the project is handled separately for operating expenses and for expenses associated with participant/program costs.

(1) Operating Expenses

Recordkeeping for project operating expenses is part of the general USA recordkeeping system and is handled by USA's accounting department, which consists of the Controller and bookkeeper. It is essentially a manual system. The records maintained include a general ledger and a subsidiary ledger for payroll. For proper expense account charging and monitoring, each contract/project is assigned a unique code.

Payroll is processed on a semi-monthly basis. It is based on timesheets completed and signed by each employee and submitted to the accounting department. These timesheets are entered into a subsidiary ledger (Lotus spreadsheet) and totals generated for

each project being implemented by USA. These totals are then entered into the general ledger according to project account code. The timesheets are filed with a copy of the subsidiary ledger in separate folders by month.

For travel expenses incurred by the staff, travel expense reports are completed and signed by the employee and submitted to the accounting department. A check request is completed by the accounting staff indicating the amount and account code(s). This check request becomes the posting medium to the general ledger.

For other project operating expenses, check requests are completed by the project staff and submitted to the accounting department with an original invoice. The accounting department indicates the codes to be charged and the information is input into the general ledger based using the check request as a posting medium.

As indicated in the discussion on reporting, there are a number of summary records of project expenses prepared using Lotus which are labeled Schedule B. To facilitate tracing of reported expenditures, it would be more appropriate to create different names for each record rather than referring to all of them as Schedule B.

(2) Participant Costs

According to the contract, a major responsibility of the contractor is to perform the essential accounting, tracking and monitoring of expenditures. Moreover, the accounting system must be capable of completely segregating each country's funding. Modification No. 2 for the contract provides for advance funding for participant costs which must be maintained in a special bank account.

The current recordkeeping system of the participant fund consists of a detailed record of costs (Schedule A) maintained per participant/program and the reconciled bank statements for the special account. The Controller indicated that in the near future, she will be adding to the firm's general ledger two new accounts to monitor the participant fund: restricted cash account and trust payable. The recordkeeping system is currently manual. An automated system on DBase III has been in the design phase for approximately one year. The Controller has indicated that it will be implemented in the near future.

The status of special account is monitored through monthly bank reconciliations. In addition, throughout the month the Project Accountant maintains an informal record consisting of a running total of checks issued and remaining balance. The remaining balance, however, does not reflect deposits which may be made during the month since the bank is not submitting deposit

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notices to USA. It is essential that USA's recordkeeping system be able to indicate the exact cash balance of the special account, particularly if they begin to maintain advances only for immediate disbursement needs, as is required under the contract.

The Project Accountant is in the process of creating a check disbursement journal (CDJ) on Lotus so that at any point in time, information as to amount in the special account will be readily available. Once the DBase system is installed, a CDJ should be incorporated which shows beginning cash on hand, deposits made, checks issued and remaining cash balance. Such information should be provided to the Project Coordinator, Controller and the Contracts Director on a weekly basis.

An existing record which should be used to monitor the participant fund is the SF 1034 voucher submitted to request advances. Upon receipt of the advance, the date and amount should be indicated on the voucher. In this way, the voucher can serve as a checkpoint to the bank reconciliation as well as to facilitate the tracing of funds not yet received.

As mentioned, participant costs are monitored through Schedule As for each participant/program. A unique PIO/P number is assigned to each. These schedules are currently created on Lotus, however, they will be generated on the PTIIC DBase system once it is running. These schedule As are different from those included in the quarterly report in that these records do not show current expenditures but only cumulative. Current expenditures should be included in these records to facilitate management oversight of disbursements.

There is currently no record which shows total participant/program disbursements or disbursements by country. In addition, there are no records maintained to track participant/program costs incurred by the subcontractor. USA relies on the reports submitted by the subcontractor rather than further processing the information.

We believe some major modifications to the current recordkeeping system are in order and have highlighted them below.

The Schedule A records should be modified to show current month expenditures (disbursements and accruals), cumulative expenditures (disbursement and accruals), and remaining balance per budget line item. There should also be a column for estimated expenses for the upcoming month. This last column should be the basis for requesting advance funds from AID and should be completed by the Project Accountant after consultation with the training staff.

An additional record indicating financial information on a

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per country basis should be maintained on the DBase III system and provided to the Project Coordinator and Contracts Director on a monthly basis. The record should include per PIO/P number approved budget, current period disbursements and accrued expenditures, cumulative disbursements and accrued expenditures, and remaining balance. This record should be the basis of the revised schedules recommended for the quarterly report. (Exhibits 5,6).

Finally, there should be only one Schedule A for a given date per participant. The several files selected for review indicate that the Schedules As are not updated regularly and that certain programs have more than one record for the same reporting period.

During our interviews, it was indicated that initially, the assigning of PIO/P numbers per participant/program did not differentiate between countries. Assigning PIO/P numbers with a unique country code is a critical recordkeeping tool for accurate sorting and reporting of financial information by country, which is required by the respective Missions. Therefore, any inappropriately numbered PIO/Ps should be modified before the implementation of the new automated system.

The PTIIC DBase III system has been designed so that as checks are entered for processing, the Schedule As will reflect the disbursement instantaneously. For audit purposes, attention needs to be paid to storing previous information in a way that is easily traceable. For example, if USA requests a $50,000 advance for costs to be incurred in January, 1988, the system must be able to produce a listing of disbursements made in January. Such information may be requested in an audit many months later and should be available.

The recordkeeping system does not currently include a procedure for closing-out completed programs. Such a procedure is essential for accurate reporting of costs to the USAID Missions as well as for accurately identifying cash needs when requesting advances. Procedures should be established and the DBase III system modified to include the final processing of completed programs. A separate record of closed-out programs should be maintained and provided once a month to the Project Coordinator and Contracts Director. The Project Coordinator is aware that close-outs must be performed and is currently designing procedures in this regard.

As indicated above, the recordkeeping system does not currently monitor subcontractor expenditures or advance payments to the subcontractor. Reports submitted by the subcontractor are in turn resubmitted to AID without any additional processing. Although the subcontractor sends detailed financial information to USA, a limited processing of this information by USA should be

performed. Of particular importance is financial information per country and the status of cash advances to the subcontractor.

In order to track the advances to the subcontractor, the DBase III system should include a record with current month advances and disbursements entered on a monthly basis. Each month the record should generate beginning and ending cash balances based on the information entered. This information can then be consolidated for the recommended quarterly report - Participant Fund: Status of Advances (Exhibit 2) and for other reports as needed. It is critical that the information entered per month be saved as such for an audit trail. Thus in July of 1988, information regarding advances and disbursements for February of 1988 should be readily available.

In order to monitor the subcontractor's participant expenditures per country, the Schedule As submitted by the subcontractor should be summarized into the recommended summary record per country discussed above.

In summary, the Schedule As and bank reconciliation statements are currently the principal records maintained for the participant fund. The Controller indicated that the automated system will be operational in the very near future. As the project will have completed half its estimated duration in a few months, it is critical that an adequate recordkeeping system be established to monitor the $11,196,500 estimated budget for the project's participant costs and to be able to prepare the reports as outlined in the reporting section above. A financial reporting system is only as good as the records maintained. In simple terms, if these records are not adequate, the reporting system cannot be.

b. Disbursements

(1) Operating Expenses

Disbursements for project operating expenses include payroll, equipment and supplies, travel and per diem, payments to subcontractors and other direct costs.

Project payroll charges have limited approvals at present. The staff indicated that the only timesheets which are approved are those of the training development assistant and training administrative assistant, by the Project Manager. The timesheets of the Project Manager, Project Coordinator and Project Accountant are not approved by anyone.

In addition, the timesheets of the USA personnel funded under the "technical assistant" portion of the project budget have no approvals. The technical assistance has been for designing and implementing a PTIIC DBase III System to track

participant information and costs. It has been provided by USA personnel working on other projects as well.

We would encourage the approval of all timesheets for project related work. Concerning technical assistance, we recommend that the remaining tasks to be performed be clearly defined, person hours for each task estimated, and that timesheets submitted by the programmers be reviewed by an authorized person who will compare time spent to progress. This role should ideally be assumed by the Contracts Director or the Project Coordinator.

Another issue with regard to disbursements for technical assistance concerns AID approvals. According to the contract, AID must provide written approval prior to disbursements to consultants retained to perform technical assistance. Our findings indicated that AID has not provided written approval for the systems work being performed.

Disbursements for other operating expenses are based on check requests. Requests submitted by the training development assistant and administrative assistant are approved by the Project Manager. Requests submitted by the Project Manager, Project Coordinator and Project Accountant are not approved by anyone. There are no limits besides "reasonableness of cost" in terms of how much might be requested.

The Controller indicated that she would like to place authority on the Project Coordinator for approving expenses and indicating the codes to which they should be charged. We would encourage the immediate implementation of approval procedures, whereby the Project Coordinator should approve <u>all</u> project disbursements requested by the staff. Those disbursements requested by the Project Coordinator should be approved by the Contracts Director. In addition, all requests greater than $500 should be approved by the Contracts Director in addition to the Project Coordinator. As the Contracts Director's role is to monitor contract implementation and appropriateness of costs, she should be included in the approval process.

The documentary requirements for payment include an original invoice. The check request and supporting documentation is submitted along with the check to the check signatories for their signatures. Two signatures are required for each check disbursement. The pink copy of the check is filed along with the check request and supporting documentation in the project file.

We selected a procurement transaction for review to assess the adequacy of supporting documentation and to trace it to the amount claimed on the SF 1034 submitted to M/FM/PAFD for reimbursement. The transaction we reviewed was for a number of computer purchases. All were supported by original invoices which

listed each item purchased and associated cost, and the pink check request form was attached. The total computer charges as indicated on the invoices reconcile with the total requested for reimbursement from M/FM/PAFD.

We also reviewed the vouchers submitted by the subcontractor for reimbursement for operating expenses. The vouchers were accompanied by a detailed breakdown of costs incurred.

(2) Participant Costs

Disbursements from the special account are made for participant costs incurred by USA and the subcontractor.

For USA incurred costs, disbursements are not made until approval is received from the appropriate USAID Mission. This approval should be provided through a PIO/P. However, because of a frequent problem regarding limited leadtime provided by the Missions, disbursements are usually authorized through a cable. When funds are needed for a particular program, a check request is completed and signed by one of the project staff, approved by the Project Manager and submitted with supporting documentation to the Project Accountant for processing. The Project Accountant indicates the correct account code to be charged, which equals the PIO/P number. Disbursements will not be made unless there has been an assigned PIO/P number. The Project Accountant also reviews the budget to ensure that the requested disbursement corresponds with one of the previously approved budget line items. If not, the Project Accountant will not process payment until the issue has been cleared up with the Project Manager.

For recurring expenses, such as monthly allowance to a long term participant, a memo is prepared by the project training staff, approved by the Project Manager and submitted to the Project Accountant. The memo indicates the amount to be disbursed each month. Based upon this memo, the Project Accountant prepares a check each month.

There are no authority limits regarding the amount of funds which the Project Manager may approve. In addition, no one approves check requests submitted by said Project Manager. To date, the Project Coordinator has not been involved in the approval process. For internal control and funds monitoring purposes, the Project Coordinator should approve all check requests from the participant fund. Those requests submitted by the Project Coordinator should be approved by the Contracts Director. In addition, any checks in excess of $1,000 should require the approvals of both the Project Coordinator and the Contracts Director.

Disbursements to the subcontractor are in the form of advances for participant costs. The subcontractor submits an SF

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1034 voucher and detailed supporting documentation indicating cash needs. It appears that neither the Project Coordinator nor Project Manager have been involved in authorizing advances to subcontractors. To date, this has been handled by the former Project Accountant. Given the large sum of money being authorized, the Project Coordinator and the Contracts Director should provide approval prior to the release of funds to the subcontractor. To ensure that releases are timely and for fund monitoring purposes, requests for advances from the subcontractor should be directed to the Project Coordinator.

Similar to the operating expense disbursements, two signatures are required on each check. A copy of the check and the supporting documentation are filed in the PIO/P file set up per participant or in the subcontractor file.

We reviewed one disbursement transaction for travel costs and noted that it was supported by an original invoice and copies of airline tickets. We also reviewed documentation submitted by the subcontractor to support a request for an advance and noted that it was quite detailed, providing sufficient information to substantiate the requested funds.

In our discussions with various personnel, it was indicated that payments to participants have not been made on a timely basis. This was confirmed by reviewing disbursements to participants as claimed in the SF 1034 and supporting detail submitted to M/FM/PAFD to request advances. As untimely disbursements to participants can be construed as non-performance by the contractor, an effort should be made to process disbursements in a timely manner. The project staff has indicated that efforts in this regard are underway.

c. Policies and Procedures

USA has written manuals for accounting and personnel policies and procedures, both of which are currently being revised by the Controller with assistance from the Contracts Director. The Controller has indicated that she intends to improve the internal controls in USA and to include the improved procedures in the accounting manual.

The training development assistant is currently drafting a manual for participants which includes the major requirements as outlined in AID's Handbook 10.

There is currently no manual which describes participant fund accounting. Once the DBase III system is installed, a manual defining recordkeeping and reporting requirements and procedures should be developed.

d. Subcontract

To assist in the implementation of this contract, USA has subcontracted Creative Associates. From a financial perspective, there appears to be limited processing of financial information. USA relies on the reports submitted by the subcontractor to approve requests for advances and reimbursement. The reports prepared by the subcontractor are informative and detailed. However, USA should to a certain extent maintain its own records on subcontractor expenditures. This is discussed in detail in Section a. Recordkeeping above. Our findings also indicate that there may be limited coordination between the two with regard to project implementation.

e. Technical Assistance

The contract stipulates that prior written approval must be obtained from AID before disbursements can be made to consultants funded under the technical assistant component of the project.

To date, five consultants have been retained for technical assistance. The first was retained to work on the procedures manual for the project. The other four were retained to work on the automated system tracking participant information. It appears that none have received formal approval from AID.

It remains unclear to what extent the technical assistance has been monitored with regard to the design of the PTIIC DBase III system. We were unable to perform a systems analysis within the scope of this review to determine progress of the technical assistance provided to date. We have observed that timesheets are not approved and that over $12,000 has been spent for a system which is not functioning as of the date of this review.

Any additional work to be performed under the technical assistance budget should be approved and monitored by the Project Coordinator or the Contracts Director on her behalf.

XI. REGIONAL TECHNICAL AID CENTER II (RTAC II)

Implementing Agency:	Aguirre International (AI)
Contract No:	LAC-0011-C-00-6081-00
AID Project Officer:	Tom Donnelly (Outgoing effective 11/30/87) Marcia Bernbaum (Incoming effective 12/1/87)
AI Project Manager:	Dr. Edward Aguirre
AI Project Director:	Mr. Rene Greenwald
Project Duration:	September 25, 1986 and 5 years thereafter
Amount of Funding:	$3,146,086
Method of Payment:	Cost reimbursement plus fixed fee type contract
Persons Interviewed:	
AID:	Mr. Tom Donnelly, Project Officer (outgoing) Ms. Marcy Bernbaum, Project Officer (incoming) Mr. Art Shantz, M/FM/PAFD
AI:	Dr. Edward Aguirre, President Mr. Rene Greenwald, Project Director Mr. Roger Chyou, Controller
Report Format:	A. Introduction B. Scope and Objectives C. Methodology D. Organization Overview E. Project Overview F. Conclusions and Recommendations G. Detailed Findings 1. Reporting System 2. Cash Management 3. Internal Controls 4. Systems and Procedures 5. Filing

A. Introduction

Price Waterhouse was engaged by the Latin America and Caribbean (LAC) Bureau of the U.S. Agency for International Development to assess the financial reporting systems of several organizations implementing LAC Bureau funded projects. One of the projects selected for review was the Regional Technical Aid Center II (RTAC II) project implemented by Aguirre, International.

An integral part of our review included a visit to Aguirre's headquarters in California in December, 1987. We would like to extend our thanks to the Aguirre staff for their assistance and cooperation in conducting this review.

B. Scope and Objectives

This review covers the financial information and reporting system of Aguirre International (AI) with the objectives of ascertaining a) compliance with grant requirements for reporting and b) the adequacy of information provided in terms of management oversight. The review is also aimed at providing assurance to the AID Project Officer as to the quality and timeliness of financial information supplied by AI as well as to the adequacy of AI's overall internal controls and systems and procedures in this regard. Based on our findings, recommendations will be developed to enhance the information and reporting systems by implementing organization as well as to improve the LAC Bureau's contract monitoring system.

Our review does not constitute an audit of the project or Aguirre and therefore an opinion will not be rendered. In addition, this review does not constitute a technical evaluation of the project.

C. Methodology

To be able to make a meaningful assessment of the financial information and reporting system, consideration was given to areas directly and indirectly related to the generation of financial information. We designed and followed a work program which included an appraisal of AI's internal controls (authority limits, approval of expenses, segregation of duties) and systems and procedures (recordkeeping, disbursements, cash management and filing) in order to put our review of the financial reporting system into the proper framework. Also included in the work program was a review of the project history as well as the nature of the organization's relationship with AID.

In conducting the review, various methodologies for fact finding were employed. These included interviewing the Project

Director based in the field office and AI's President and Controller based in San Mateo, California, both of whom are involved in the project. In addition, accounting records at AI's main office were inspected and two reimbursement requests were reviewed for supporting documentation.

We also reviewed reimbursement requests submitted to M/FM/PAFD and the project status reports provided to the LAC Bureau to determine the adequacy of information submitted to AID as well as compliance with the requirements of the contract. Since the project is located overseas, we reviewed documents/records submitted by the field office to AI. The field office located in Mexico City was not visited as part of the review. A flowchart of the transactions and information flow between the field and the main offices was also developed.

D. Organization Overview

Aguirre International, established in 1979, provides services to the government, education and private sectors in such areas as policy development and analysis, program development and evaluation, technology transfer, personnel assessment and technical assistance and training. It is based in San Mateo, CA with offices in Washington, D.C. and Mexico City and has a staff of approximately 24.

Aguirre has been involved in a wide range of activities. These include an assessment of the training management system for USAID/Dominican Republic; a series of reviews of the status of bilingual-education statutes and regulations in different states for the U.S. Department of Education; an evaluation of AID's Central and Latin American Scholarship program; assistance in operational and strategic planning to the Institute Technologico Superior, a private, non-profit technical training institution in Lima, Peru. The U.S. Agency for International Development is a principal client of Aguirre.

E. Project Overview

The purpose of the RTAC II project is to provide up-to-date U.S. technical textbooks and other materials in Spanish to university students in Central America. Aguirre's principal responsibilities include:

- Periodic assessments of needs for books through contacts with university bookstores, professors and students

- Arranging for translations and/or development of textbooks

- Establishing procedures with bookstores for receipt of books
- Purchase and shipment of books from publishing centers in Mexico and Argentina
- Providing technical assistance and training for bookstores and USAID Missions to implement the project
- Coordination with book distribution projects of the U.S. Information Organization and the Pan-American Health Organization

The project is based in Mexico City and has a staff of approximately 8. A National Coordinator in each country oversees project implementation and ensures that AID requirements are being met. In addition, the Project Director makes frequent site visits to monitor and evaluate project implementation.

F. Conclusions and Recommendations

1. Reporting System

Our findings indicate that overall, the financial reporting is in compliance with contract requirements and appears to be based on a system with adequate controls. However, we believe that certain enhancements to the current reports should be made to provide the AID Project Officer with information needed for management oversight.

a. The financial information presented in the progress report submitted to LAC/DR/EST should be expanded.

Currently, the progress reports (quarterly and semi-annual) submitted to the LAC Project Officer present a financial summary of amount authorized, obligated, disbursed and pipeline for textbooks. We believe it is inadequate for project management oversight. We recommend that financial information be presented by budget line item and that it include budgeted amount, current period disbursements and accrued expenditures and total disbursements and accrued expenditures to date. Presenting information by budget line item is critical for monitoring the rate of yearly spending and ensuring that project expenditures per line item are within the approved amounts. In addition, it will enable the AID Project Officer to reconcile the disbursements claimed in the progress report with those reported to M/FM/PAFD.

b. Any modification of the reporting requirements should be formalized.

Currently, it appears that AI is submitting both quarterly and semi-annual reports. The contract stipulates that the progress report is due quarterly although the organization was verbally informed that reports are due semi-annually. We recommend any modification of the reporting requirements be formalized through a contract amendment or official memorandum. Documenting changes serves to clarify new requirements as well as facilitate the transition when new project staff are retained.

c. Totals of books purchased and sold should be provided.

As the principle objective of the project is book distribution, information with regard to the number of books purchased, distributed to bookstores or distribution centers, and sold to students would be instrumental in assessing project progress. We therefore recommend that such totals be included in the progress report submitted to the LAC Bureau. Such information should be obtained from the newly installed MIS in participating bookstores/distribution centers.

2. Cash Management

From our limited review, it appears that AI has sound cash management procedures.

3. Internal Controls

Our findings indicate that AI's internal controls are generally adequate, however, they would benefit from additional controls regarding check payments and audit.

a. Authority limits with regard to check signatures should be established.

Currently, only one signature is required on check payments, regardless of the amount. We recommend that limits be established for check payments over an amount determined to be appropriate. This will help ensure that AID funds are safeguarded.

b. Audits of bookstores and distribution centers should be conducted.

To date, audits of bookstores and distribution centers have not been performed. We recommend that such audits be conducted on a regular basis. Although we recognize that the National Coordinator in each country makes frequent visits to these groups,

an audit by an established public accounting firm would ensure that books are sold in accordance with AID requirements. We understand that the Aguirre Controller is planning on subcontracting with local entities in each of the five countries to conduct these audits.

c. The practice of conducting quarterly reviews of the country offices should be continued.

Currently, the AI Controller conducts a quarterly visit to the Mexico City office to review accounting records and overall systems and procedures. We recommend that this practice continue as it serves to strengthen internal controls at the field level. In addition, it makes the project staff aware of their responsibilities.

4. Systems and Procedures

Our observations indicate that AI's systems and procedures appear adequate. Accounting records provide sufficient detail of transactions. Book sales are monitored by both distribution centers and bookstores and purchases are supervised by the National Coordinators. However, we have some recommendations aimed at both streamlining and improving existing systems.

a. The current project records maintained should be reevaluated and streamlined.

Currently, there are several project records maintained with duplicate information. These include the cash disbursement book, the summary record per budget line item and the detailed record per expense account. We recommend that AI review these records and design a consolidated record which includes all of the required information. This will avoid duplication and save considerable manhours in recordkeeping.

b. Invoices which have been paid should be indicated as such.

Currently, check numbers and dates paid are not indicated on invoices. We recommend that this information be indicated to avoid duplicate payments as well as facilitate tracing.

c. Travel advances should be liquidated promptly.

In our review of disbursement transactions, we noted that in one instance, a consultant submitted his travel claim five months after the travel occurred. We recommend that a policy be established requiring advances to be liquidated promptly upon completion of said travel. This will ensure that requests for

reimbursement submitted to AID reflect project expenditures of the previous month as required.

d. Bookstores and Distribution Centers should submit sales reports.

Currently, book sales are monitored by the bookstores and distribution centers although reports are not submitted to AI. We recommend that summary sales reports be submitted monthly to keep the Project Manager abreast of sales activity. With the implementation of the new MIS for tracking sales, such information should be readily available.

e. Copies of contracts entered into for project activities should be maintained at the main office.

Our findings indicate that the main office maintains few copies of memorandums of agreement with bookstores and distribution centers. As a result, we were not able to review pertinent provisions such as reporting requirements and audit. We recommend that copies of all agreements be maintained in San Mateo. This is consistent with Aguirre's policy of maintaining all accounting records and documents in San Mateo and will provide an immediate reference if needed.

f. Document policies and procedures with regard to disbursement procedures.

Currently, AI has written policies with regard to travel and procurement. We recommend that these be expanded to include disbursement procedures, such as approvals required and authorized signatures. Such documentation will serve as a reference for staff.

G. Detailed Findings

1. Reporting System

Under this contract, report requirements of AID include financial and progress reports. Financial reports are due to the paying office (M/FM/PAFD) while progress reports are to be submitted at least quarterly to the AID/W Project Officer and USAID Mission. Below is our assessment of the reports as to compliance with contract provisions and adequacy of information for management purposes.

a. Financial Reports

Under the direct contract, recipients are required to prepare

an SF 1034 voucher within 30 days from the close of the accounting month in which the organization incurred costs under the contract. The SF 1034 voucher must be accompanied by an itemization of expenses and supporting documents, such as invoices and receipts.

We reviewed all the SF 1034 vouchers submitted to M/FM/PAFD. Our findings indicate that the vouchers are submitted monthly on an average of 8 days after the end of each month. As required, the SF 1034 is duly supported by the required documents such as certification, expense itemization and travel liquidation reports, and invoices and receipts. Although not required, copies of the SF 1034 and accompanying detail are forwarded by Aguirre to the LAC Bureau Project Officer concerned.

In reviewing the SF 1034 vouchers on file at M/FM/PAFD, we also noted that M/FM/PAFD paid interest to AI during the months of August and September, 1987. These payments were made as a result of late processing of reimbursements to AI during said months. On an average, AI receives the reimbursement from M/FM/PAFD after 39 days.

The expense itemization accompanying the SF 1034 presents the details of the reimbursement request. It is in essence a financial status report as it shows the budget based on the latest AID authorized budget, amounts claimed the previous months, the current month, and the cumulative to date as well as the budget balance per expense category. Detailed financial information within each category is also provided.

The SF 1034 voucher is prepared by AI's main office and is based on the records prepared and maintained by its field office in Mexico City. Refer to Exhibit 1 for a flowchart of project recordkeeping and reporting.

Internally, the Mexico City office prepares a monthly summary of transactions based on the records maintained. This summary is submitted to the main office in San Mateo, CA together with the original documents supporting the disbursements/transactions reported in the summary. Details of the recordkeeping are discussed in item No. 4 of this section.

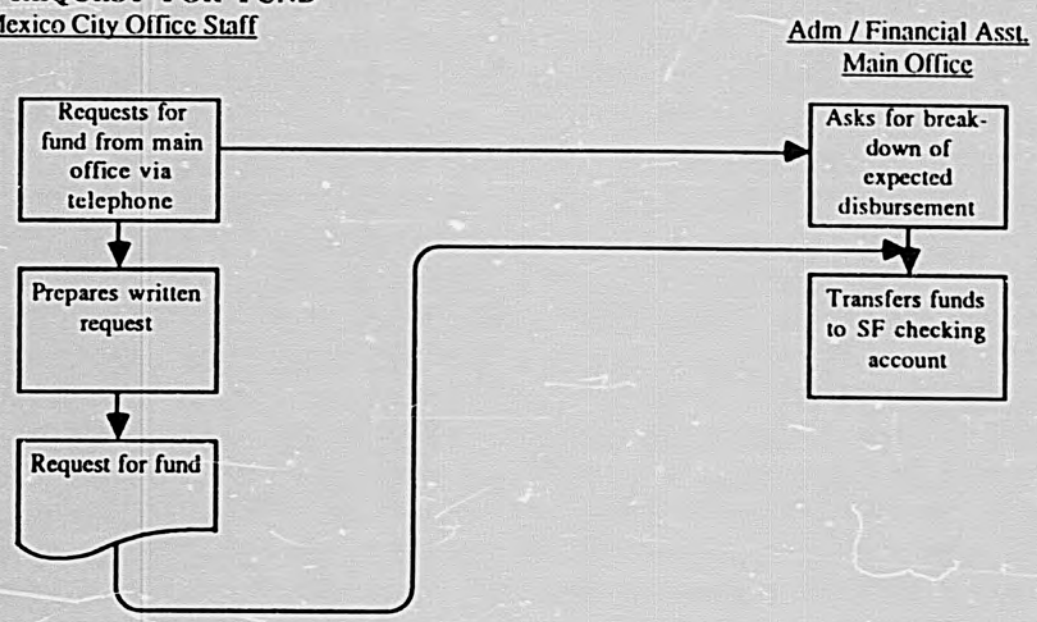
b. Progress Reports

The progress report is required from AI every quarter and copies have to be provided to the LAC/DR Project Officer and USAID Mission. The report must be submitted within 30 days following the end of the reporting period. The contract does not spell-out the information required from AI but the report should keep the LAC/DR Project Officer and Mission up-to-date on the status of

RTAC II

FLOWCHART ON DISBURSEMENT, RECORDKEEPING AND REPORTING

A) REQUEST FOR FUND



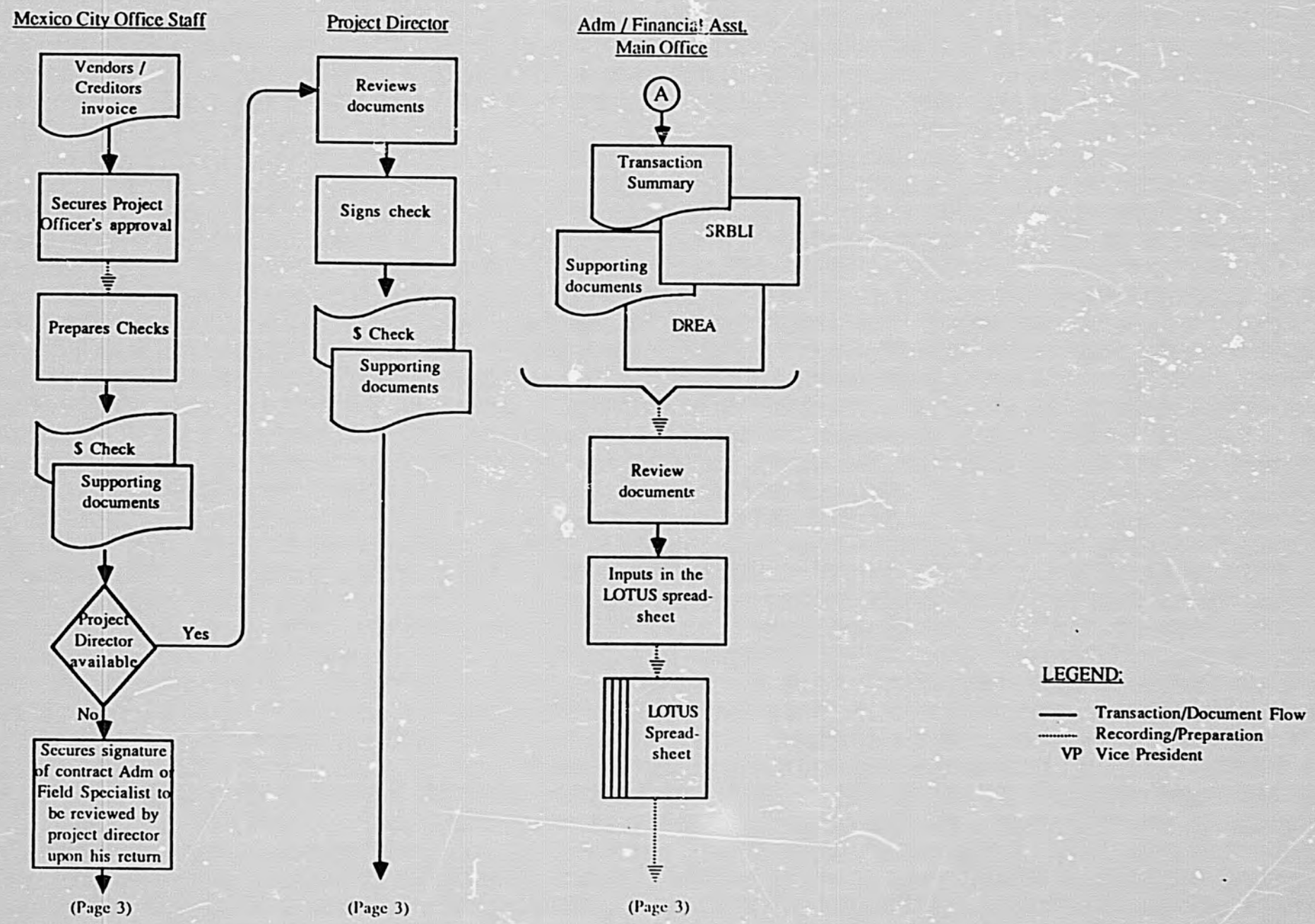
LEGEND:

SF San Francisco

RTAC II

Exhibit 1
Page 2

B. DISBURSEMENT/RECORDING/REPORTING



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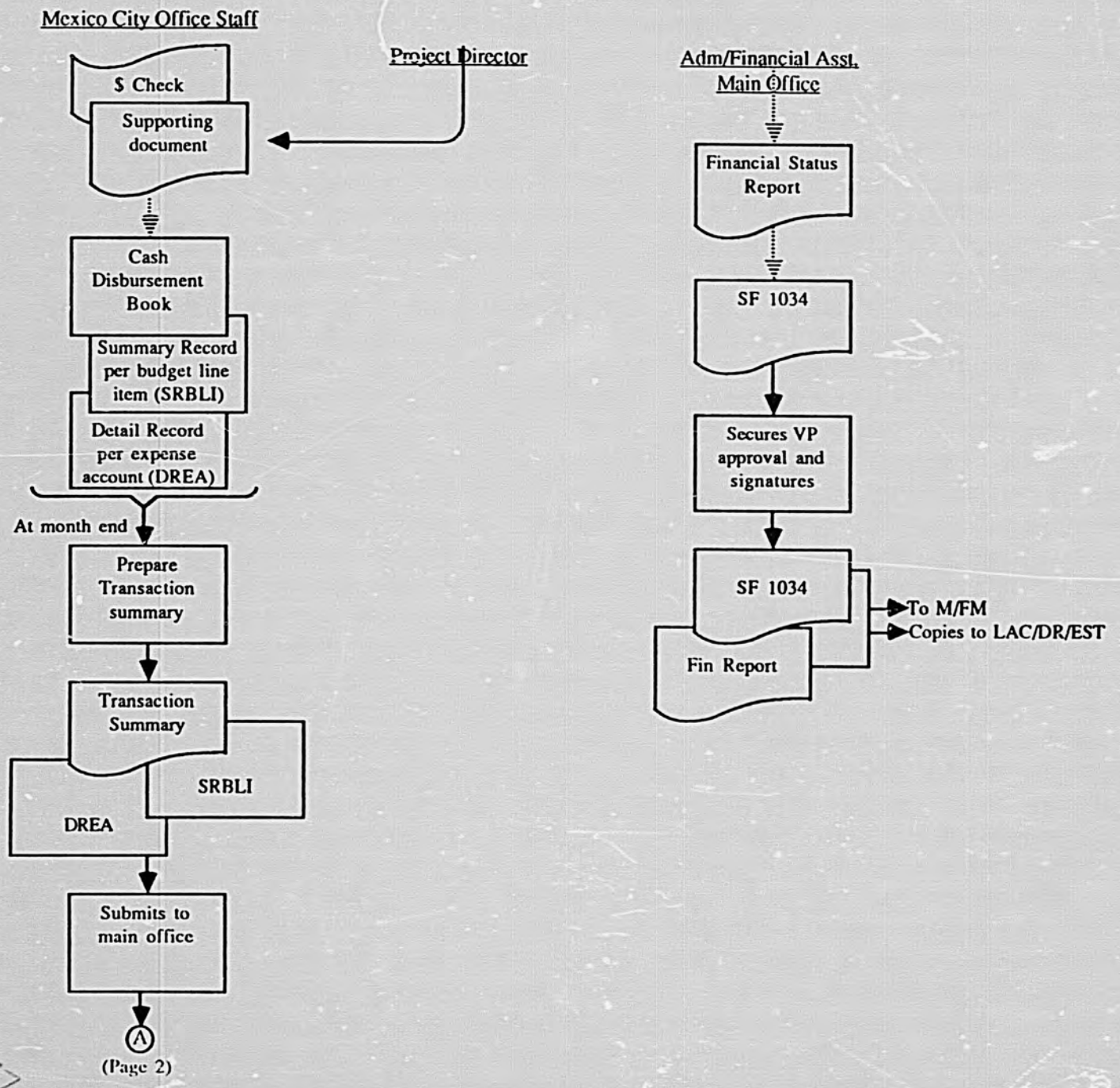
B. DISBURSEMENT/RECORDING/REPORTING (cont'd)



LEGEND:

—— Transaction/Document Flow
..... Preparation
VP Vice President

activities under the contract. In our interview with the incoming Project Officer we learned that the reporting requirement was modified so that progress reports are now due semi-annually. However, Aguirre continues to submit both and we reviewed copies of each.

The semi-annual report presents in capsule form a background of the project and a financial summary which includes amount authorized/obligated, expenditures and pipeline for textbooks. The financial information presented is not adequate for management oversight. The report would be more useful if it presented a financial summary by budget line item (within budget line item is not necessary) which included budgeted amount, current period disbursements and accrued expenditures and total disbursements and accrued expenditures to date. Although such information is presented on a monthly basis in the SF 1034 submitted to M/FM/PAFD, a summary for the reporting period will facilitate LAC Bureau management oversight. It will enable the Project Officer to monitor project expenditures on a semi-annual level as well reconcile the reported totals against the monthly SF 1034 vouchers for the same period.

The report also presents a narrative of major outputs and overall project status. The discussion provides the Project Officer necessary information on the activities/accomplishments of the project as well as feedback of people benefited by the project. The report does not include however total numbers of books delivered to bookstores/distributors as well as sold to students to support the narrative portion and make the discussion more meaningful.

The quarterly report is very similar to the semi-annual one submitted. It presents an overview of the project, accomplishments by area of concern (e.g., administration, publishers, technical assistance, etc.) problems and delays and goals for the next quarter. Also included is a summary of travel undertaken during the reporting period. The quarterly report would be more informative if it included the financial information and totals of book purchases/sales recommended for the semi-annual report above.

The quarterly report reviewed was the first one submitted, a copy of which was available at the main office. Succeeding reports were on file at Mexico City and were not available at San Mateo where this review was undertaken. We would encourage the main office to maintain copies of all reports submitted to AID.

c. Other Reports

As required in the contract, AI has to submit an annual report as the main product of the Management Information System (MIS)

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developed for the project. The first annual report has been drafted and is subject to review by AID. AI expects to submit it in the near future.

2. Cash Management

The method of payment by AID for this project is on a cost reimbursement basis. AI funds are advanced to pay for the project expenses and reimbursed by AID every month. For internal cash management purposes, AI opened a separate bank account (checking) for the RTAC II project in San Francisco, CA to protect dollars from devaluation. Fund transfers to this account are based on requests by the Mexico City office. These are made over the telephone but followed up by a written request indicating the details for which the fund will be used. Disbursements from this San Francisco account are made by the Mexico City office.

To monitor the use of funds, a monthly detailed summary of expenses together with the supporting list by expense accounts (showing the check number and amount paid) and invoices/receipts are submitted to the main office for review. Details of the budget such as the expense category and breakdown of expenses under each are provided to the Mexico City office to serve as a ready reference and make the office aware of the expenditure limit during the project duration. In addition, monthly reconciliation is made of cash transferred by the main office and actual disbursements at the Mexico City office.

3. Internal Controls

a. Segregation of Duties

At the Mexico City office, processing of transactions and recording are handled by one person. However, approval of such transactions and check signing are handled by other staff members. Report preparation is done at the main office.

b. Approval of Expenses

All project expenses incurred at the Mexico City office are subject to approval by the Project Director. In his absence, two alternate staff approve expenses but said expenses are subject to review by the Project Director upon his return. At the main office, only payroll expenses are processed although occasionally, miscellaneous expenses for the project are incurred.

c. Check Signatories

To ensure that funds are properly safeguarded, signatories to the bank accounts have been assigned. Signatories to the RTAC-II

bank account maintained for the project include the President, Vice President and Treasurer of AI's Board of Directors. These signatories are the standard AI signatories required by the Board of Directors as back-up. However, since the check processing using this account is done at the Mexico City office, signatories at the field have also been named. These signatories include the Project Director and two other field officers. Only one signature is required and no authority limits have been established for check approval. In cases where the Project Director is out-of-town, documents covering the check issued are subject to review/approval by the Project Director upon his return.

d. Review of Payment Transactions

For internal control purposes, transactions processed and paid at the Mexico City office are subject to review by the Controller at the main office in San Mateo, CA. Original copies of transaction documents are submitted to the main office. Copies of documents submitted are kept at the Mexico City office as back-up.

In addition, the AI Controller conducts a quarterly visit at the Mexico City office to review accounting records and assist in improving the field office systems and procedures if necessary.

4. Systems and Procedures

a. Recordkeeping

Recordkeeping at the Mexico City office is done manually. Records maintained for the project include a budget book and a cash disbursement journal. In addition, a summary record per budget line item (SRBLI) and a detailed record per expense account (DREA) are maintained. All checks issued are recorded in the cash disbursement book to summarize disbursements made. These disbursements are also recorded in the SRBLI and DREA. We observed that much of the information contained in the cash disbursement book is duplicated in the SRBLI and the DREA.

The cash disbursement book, SRBLI and DREA are summarized monthly using a LOTUS spreadsheet. This summary is submitted to the main office in San Mateo, CA together with copies of the SRBLI, DREA and supporting documentation such as original copies of the travel claims and invoices/receipts. Also attached to the transaction summary is a reconciliation of funds showing the amount received from the main office, amount spent and remaining balance. This schedule also provides information with regard to petty cash and travel advances.

The transaction summary and the accompanying documents are reviewed and double checked as to claims, payments and

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mathematical accuracy by the Controller.

At the main office, project transactions consist primarily of salaries and limited payments incurred for the Mexico City office, such as computer supplies purchased at the main office for use at the field office. Salaries of the three Americans based in Mexico City are processed and paid through the main office as are salaries of the project manager (who is the AI President) and the Admin/Financial Assistant (who is the AI Controller).

Both the main office and country office transactions are summarized in a LOTUS spreadsheet at the main office. This summary is used as the basis for preparing the financial information submitted tc M/FM/PAFD as an attachment to the SF 1034. This spreadsheet should also be the basis for the additional information recommended for the progress report submitted to the LAC Bureau.

AI will be computerizing the recordkeeping process for the RTAC-II project using a DELTEK packaged system. According to the Project Manager, this system is popularly used for monitoring government contracts. At present, AI is doing a parallel run with the DELTEK and SOLOMON systems at the main office. They will be on-line with the Mexico City office effective January 1988 in order to facilitate exchange of fiscal information. Three computers have been acquired for the Mexico City office.

For monitoring textbook transactions, a Management Information System has been developed by the University of the Americas de Puebla based on AI specifications. Each bookstore/distribution center has been provided with a computer by the Mission. With the new MIS in place, book sales should be reported to project management on a monthly basis.

b. Disbursement Procedures

Disbursements for the project are made by AI from its own funds, with the exception of book purchases which are paid for directly by AID. Disbursements are reimbursed upon submission of the SF 1034 voucher. Expenses for the project are primarily incurred at the Mexico City office and are processed and paid in Mexico from the bank account maintained in San Francisco. All disbursements are subject to approval by the Project Director. In his absence, the Contract Administrator or the Field Specialist approve disbursements which are then subject to review by the Project Director upon his return.

Processing of payroll for local staff is handled at Mexico City office while payroll for the main office staff and the three Americans in the field is done through Automated Data Processing,

an outside firm retained for the purpose. The local staff and three Americans in the field are charged full time to the project, where as the Project Manager and Admin/Financial Analyst in San Mateo only part time.

In reviewing the disbursement procedures we sampled two SF 1034 vouchers to assess the adequacy of supporting documentation. Our observations indicate that the SF 1034s are properly supported by the necessary receipts/documents. However, we noted that invoices are not marked "paid" or have check numbers. Such information would ensure that payments are not duplicated and would facilitate tracing.

Our review of the disbursement procedures also disclosed the following with regard to travel expenditures. Travel under the project must have prior approval from AID/W and the Mission. Documentation requirements for payment include a travel claim which is supported by hotel bills, air tickets and other documents required. Although staff are paid per diems, invoices/receipts are required. However, only xerox copies are submitted since originals are in Mexico City. We reviewed several travel related transactions and noted that travel authorizations indicating approval are attached to the liquidation of advance as required. In addition, liquidation are supported by adequate documentation.

Also required from each traveler for internal use is a trip report. The report usually includes information such as accomplishments, problems, follow-up, book procedures and observations/issues in each country.

We noted that a liquidation of advances (travel claim) was submitted late by one consultant. The travel took place in May 1987 but was reported only in October. We would encourage Aguirre to implement a policy to ensure prompt liquidation of travel advances.

c. Policies and Procedures

AI has a written policies and procedures manual which contains guidelines covering travel authorization, advances, claims, per diems, issuance of purchase orders, obtaining services of consultants and purchase of RTAC-II books. Policies and procedures on the use of office cars, time and attendance and travel for technical assistance and training are also included. The manual also contains sample forms for each procedure discussed and references from AID handbooks with regard to travel. In addition, AI has a compilation of per diem supplement issued by the U.S. Dept. of State.

5. Filing

Financial documents related to the project are kept in a steel cabinet maintained by the Controller. At the main office one folder for each month's SF 1034 voucher and supporting documents (xerox copies) is maintained. These folders are filed together in chronological order and easily retrievable. A separate file folder per month of original documents coming from Mexico City office is also maintained and arranged chronologically. According to the Controller, the Mexico City office maintains separate files for each consultant/employee.