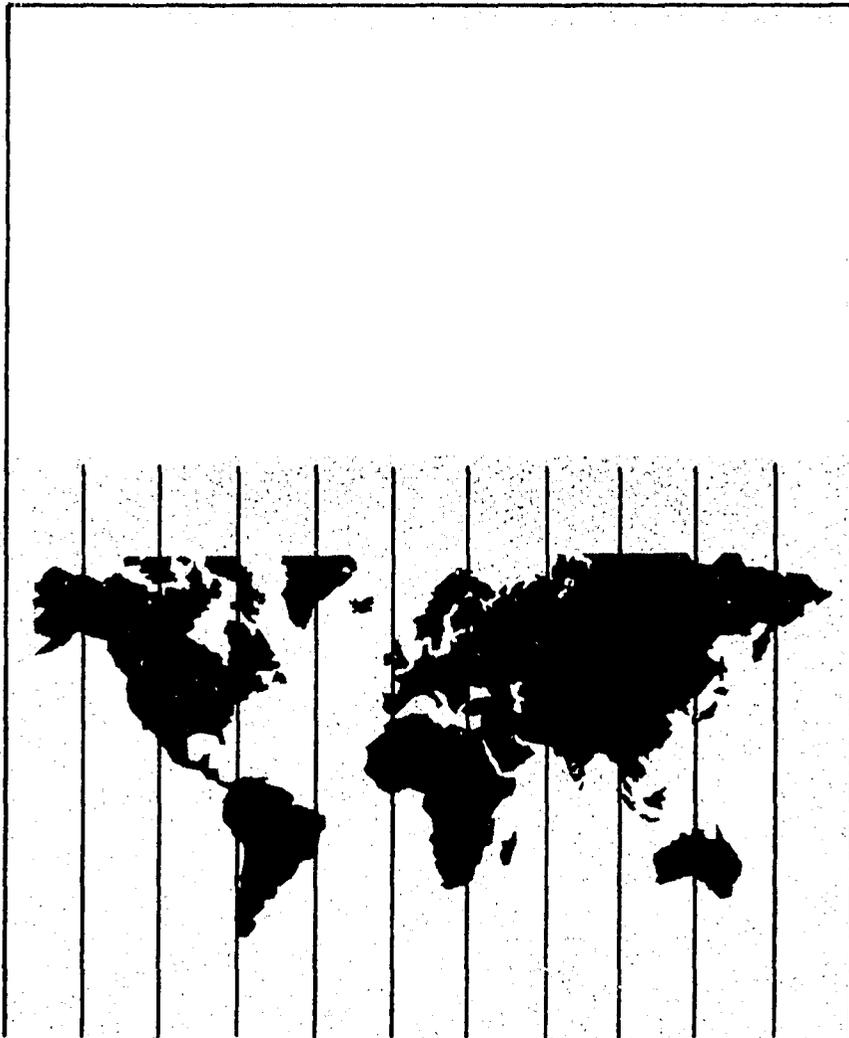


PD-ABD-127

UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit

TEGUCIGALPA

PD-ABD-127

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**AWARD SURVEY OF THE CAPABILITY OF
THE HAITIAN FOUNDATION FOR PRIVATE EDUCATION
TO MANAGE USAID/HAITI'S
INCENTIVES TO IMPROVE BASIC EDUCATION PROJECT**

**Audit Report No. 1-521-91-44-N
August 15, 1991**

AGENCY FOR INTERNATIONAL DEVELOPMENT

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August 15, 1991

MEMORANDUM

TO: D/USAID/Haiti, David A. Cohen

FROM: RIG/A/T, Reginald Howard *Reginald Howard*

SUBJECT: Award Survey of the Capability of the Haitian Foundation for Private Education to Manage USAID/Haiti's Incentives to Improve Basic Education Project

This report presents the results of a non-Federal award survey of the capability of the Haitian Foundation for Private Education (Foundation) to manage activities of the Incentives to Improve Basic Education Project, USAID/Haiti Project No. 521-0190. The accounting firm of Klynveld Peat Marwick Goerdeler (KPMG) prepared the report which is dated July 23, 1991. The audit was requested by USAID/Haiti.

On July 27, 1989, USAID/Haiti signed a cooperative agreement with the Foundation for \$5.3 million to fund the Project. The purpose of the Project is to assist the private sector of Haitian primary education to improve the quality of instruction, administrative efficiency and equity of access in schools serving the rural and disadvantaged segments of the Haitian population, and to organize itself in a manner that will ensure the continuance of these efforts.

The purpose of the award survey was to report on the Foundation's: (1) financial and managerial capability to administer activities of the Project, (2) internal control structure with respect to the Project's operations, (3) compliance with the terms of the agreement and applicable laws and regulations, and (4) statement of proposed direct and indirect costs.

KPMG concluded that the Foundation has sufficient management and financial capability to manage the activities of the Project and for the items tested has the capability to comply with laws, regulations, and agreement terms relevant to the Project. The auditors also concluded that the internal control procedures established at the Foundation are generally adequate for Project purposes except

for four material weaknesses relating to: (1) the basis used for proposed costs, (2) control over school attendance reporting, (3) control over the resale of textbooks and supplies, and (4) the procurement of materials and supplies.

The auditors were not provided either information in sufficient detail nor appropriate documentation to support certain proposed costs. Accordingly, KPMG was unable to express an opinion on the Foundation's statement of proposed direct and indirect costs.

This report was discussed with the Foundation's management who expressed general agreement with the report.

We are including the following recommendations in the Office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/Haiti require that the Haitian Foundation for Private Education provide documentation which adequately supports its proposed direct and indirect costs for implementing the Incentives to Improve Basis Education Project.

Recommendation No. 2

We recommend that USAID/Haiti require the Haitian Foundation for Private Education to establish procedures which address the problems identified in the KPMG report in the following areas: (1) control over school attendance reporting, (2) control over the resale of textbooks and supplies, and (3) the procurement of Project materials and supplies.

Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

AWARD SURVEY OF
THE INCENTIVES TO IMPROVE BASIC EDUCATION PROJECT
MANAGED BY THE HAITIAN FOUNDATION
FOR PRIVATE EDUCATION
USAID/HAITI PROJECT NO. 521-0190

AWARD SURVEY OF
THE INCENTIVES TO IMPROVE BASIC EDUCATION PROJECT
MANAGED BY THE HAITIAN FOUNDATION
FOR PRIVATE EDUCATION
USAID/HAITI PROJECT NO. 521-0190

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July 23, 1991

Mr. Reginald Howard
Regional Inspector General
for Audit
U.S. Agency for International
Development
Tegucigalpa, Honduras, C.A.

Dear Mr. Howard:

This report presents the results of our award survey of the Incentives to Improve Basic Education Project, USAID/Haiti Project No. 521-0190, managed by the Haitian Foundation for Private Education.

Background

On July 27, 1989, the U.S. Agency for International Development, Mission to Haiti, (USAID/Haiti) signed a cooperative agreement with the Haitian Foundation for Private Education (FONHEP) for US \$5,303,314 to fund the Incentives to Improve Basic Education Project (PROBED), Project No. 521-0190, over a three-year period ending in July 1992. FONHEP, incorporated in September 1988, is an organization founded by the Commission Episcopale des Ecoles Catholiques (CEEC) and the Fédération des Ecoles Protestantes d'Haïti (FEPH) to serve private sector education in Haiti. It was formed as a counterpart institution under a previous phase of the PROBED project implemented by Florida State University (FSU). The PROBED project is designed to assist the private sector of Haitian primary education to improve the quality of instruction, administrative efficiency and equity of access in schools serving the rural and disadvantaged segments of the Haitian population, and to organize itself in a manner that will ensure the continuance of these efforts.

Under the project, FONHEP proposes to:

- o Assume primary responsibility for school support providing materials and training.
- o Assist FSU in its continuing role as Manager/Technical Assistant in school data collection, analysis and evaluation, as well as in the research, development and dissemination of educational innovations to improve teacher training, instruction and materials.

- o Undertake all necessary planning and administrative tasks associated with the above activities, such as personnel administration, financial management, financial and progress reporting, formative evaluation, etc.

FONHEP was also the recipient of a \$2,350,000 grant for the PROBEd project under an agreement signed on January 17, 1989 with the management office of the PL-480 Title III program which was effective for a one-year period ended in January 1990.

Survey objectives and scope

The objectives of our award survey were to study and evaluate the Haitian Foundation for Private Education (FONHEP) to determine whether:

1. The estimated direct and indirect proposed costs are based on the most current, complete and accurate data available, and reflect only those costs which are allowable, reasonable and necessary to accomplish the work.
2. FONHEP has sufficient management capability and span of control to administer the project, considering its current and forecasted project workload, staffing level and past performance.
3. FONHEP is financially capable of performing the proposed work.
4. FONHEP's accounting system contains sufficient capacity to accurately capture accounting data under the agreement and the internal accounting controls are adequate for project purposes.
5. FONHEP is in compliance with applicable laws and regulations.

Our study and evaluation was performed in accordance with Generally Accepted Auditing Standards and with the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision).

The scope of our work consisted of:

1. A study and evaluation of the statement of proposed costs for the project to determine if the estimated direct and indirect costs are based on the most current, complete and accurate pricing data available and whether they are allowable, reasonable and necessary for the project.
2. A review of FONHEP's administrative structure considering the current and proposed levels of project activity and past performance in administering similar projects.

3. An analysis of FONHEP's financial capability for performing the proposed work, considering its assets on hand and line of credit, until USAID/Haiti makes periodic reimbursements.
4. A study of FONHEP'S system of management and internal control for accounting, record keeping and financial management, including utilization of separate bank accounts for each fund; procurement procedures; obtaining of counterpart funds; preparation of reimbursement requests; and planning procedures.
5. A review of compliance by FONHEP with applicable agreement provisions and with the laws and regulations to which it is subject.
6. A review of policies and procedures used in connection with financial management, the procurement system, the planning process, procurement of counterpart funds, and preparation of the proposed cost budget.

Results of survey

Statement of proposed costs

We were unable to satisfy ourselves as to the adequacy of the statement of proposed costs because, as explained in details in note 1 of the related report:

- o The line items of school support and operating expenses in the statement of proposed costs may be overstated in relation to the basis established in the projects' documentation. The extent of overstatement cannot be determined due to inherent limitations in the data available for evaluating those line items.
- o There was insufficient documentation in support of some line items of other operating expenses for the Central Office, the Institutional Development Program Funds, and equipment.
- o The statement of proposed costs' line item of school construction was understated. The extent of understatement could not be determined due to limitations in the data available for this line item.

Management capability

Based on our survey, we believe that FONHEP has the management capability to provide sufficient administration and span of control in relation to project no. 521-0190.

1'

Financial capability

Based on our survey, we believe that FONHEP has the financial capability to manage the above mentioned project.

Internal control structure

FONHEP's internal control structure is adequate, except for the following conditions, which we believe result in a more than relatively low risk that errors or irregularities in amounts that would be material to the project's financial information may occur and not be detected within a timely period.

1. Some proposed costs are not based on the most current, complete and accurate data available.
2. Control of school attendance and its reporting need to be strengthened.
3. Control over resale of textbooks and supplies by the schools need to be strengthened.
4. FONHEP's procurement practices are not always in compliance with A.I.D. regulations nor its own procedures manual.

Compliance with applicable laws and regulations

FONHEP complied with the applicable laws and regulations tested.

Nothing came to our attention to indicate that FONHEP has not complied with applicable laws and regulations.

Management comments

Following the review of our draft report by FONHEP's management subsequent discussions held with FONHEP and an exit conference held on July 16, 1991 with FONHEP and FSU, they provided us with their comments on the draft report on July 22, 1991. They were generally in agreement with the draft report although they suggested some changes.

Our final report includes all those changes and modifications considered by us appropriate based on the discussions held and our own appraisal of the evidence obtained during the audit process.

KPMG - Mérové-Pierre - Cabinet d'Experts-Comptables

INCENTIVES TO IMPROVE BASIC EDUCATION PROJECT

MANAGED BY THE HAITIAN FOUNDATION

FOR PRIVATE EDUCATION

USAID/HAITI PROJECT NO. 521-0190

Statement of Proposed Costs

Independent Auditor's Report

We were engaged to conduct an award survey of the statement of proposed costs of the Haitian Foundation for Private Education (FONHEP) for the Incentives to Improve Basic Education Project, USAID/Haiti Project no. 521-0190.

The purpose of our survey was to determine whether the above mentioned statement of proposed costs complied with the following general guidelines:

1. direct and indirect costs are based on the most current, complete and accurate pricing data available;
2. all costs are allowable, reasonable and necessary to complete the work in accordance with OMB-Circular no. A-122; and
3. proposed employee salary and wage escalation factors and benefit plans are reasonable.

We were unable to satisfy ourselves as to the adequacy of the statement of proposed costs for US \$3,230,430 out of a total budget of US \$5,303,314, because, as further explained in note 1 to the statement of proposed costs: the budget line items of school support and operating expenses may be overstated; there was insufficient documentation in support of operating expenses for the Central Office, the Institutional Development Program Funds, and equipment; and the line item of school construction was understated.

The budget for school support was prepared on the basis of the number of children enrolled in and attending the schools, based on the criteria established by the project document. Based on the current environment of the rural education system, which is still in a development phase, certain factors, such as school attendance, and absenteeism and its specific causes, do not lend themselves to rigorous measurement and identification methods. Consequently, the basis used for establishing the school support budget could not be determined with accuracy.

Because FONHEP did not provide us with sufficient detail or appropriate documentation to support several line items of the statement of proposed costs and we were not able to determine their reasonableness and the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the reasonableness of the accompanying statement of proposed costs in regard to the guidelines mentioned in the second paragraph.

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

KPMG - Mérové-Pierre - Cabinet d'Experts-Comptables

May 31, 1991

INCENTIVES TO IMPROVE BASIC EDUCATION PROJECT
MANAGED BY THE HAITIAN FOUNDATION FOR PRIVATE EDUCATION
USAID/HAITI PROJECT NO. 521-0190

STATEMENT OF PROPOSED COSTS
USAID PROVIDED GRANT FUNDS
EXPRESSED IN U.S. DOLLARS (1)

Period budget: 7/27/89 - 7/26/92

<u>Item/year</u>	<u>Project year 1989-1990</u>	<u>Project year 1990-1991</u>	<u>Project year 1991-1992</u>	<u>Project total 1989-1992</u>
1. Operating expenses:				
a. Salaries and fringe benefits	\$ 323,026	526,715	560,537	1,410,278
b. Other operating expenses - Central Office	<u>122,818</u>	<u>216,162</u>	<u>230,590</u>	<u>569,570</u>
Total operating expenses	445,844	742,877	791,127	1,979,848
2. School support	386,122	1,232,438	784,000	2,402,560
3. Institutional Development Program Funds	153,159	299,734	312,950	765,843
4. Training - Central Office	3,264	23,823	23,823	50,910
5. Equipment	13,459	9,729	10,132	33,320
6. Construction and Office Renovation	13,333	5,000	2,500	20,833
7. Audit	<u>20,000</u>	<u>15,000</u>	<u>15,000</u>	<u>50,000</u>
Total grant costs	\$ <u>1,035,181</u>	<u>2,328,601</u>	<u>1,939,532</u>	<u>5,303,314</u>

(1) The exchange rate used was Haitian Gourdes 6 = US \$ 1.00

INCENTIVES TO IMPROVE BASIC EDUCATION PROJECTMANAGED BY THE HAITIAN FOUNDATIONFOR PRIVATE EDUCATIONUSAID/HAITI PROJECT NO. 521-0190Statement of Proposed Costs**Note 1. Questionable proposed costs**

Our study and evaluation of the proposed costs revealed that several line items of the costs proposed by FONHEP for USAID/Haiti grant funding were not adequately estimated and documented and that other line items may be over or understated. Those costs are presented in annex no. 1 and our related comments about the inadequacy of documentation and reasonableness are as follow:

1. b.* Other operating expenses

-Central Office: US \$569,570

Comments

- | | |
|--|---|
| b.1 Consultants: US \$35,050 | This represents professional fees of the personnel needed for re-search and data collection on schools. There was no evidence of the basis used to determine the number of days needed to conduct this work and the rate used. |
| b.2 Temporary assistants:
US \$ 14,084 | This represents secretaries and computer operators engaged on a temporary basis at peak time when preparing schools' orders and seminars. There was no evidence of the basis used to determine the salary rates and the number of personnel needed. |
| b.3 Travel and transportation: US \$ 283,959 | This includes international and local travel and vehicle fuel and maintenance, as described further. |

* References are the same presented in annex no. 1

1. b. Other operating expenses:
(continued)

Comments

International travel::	The costs for international travel were determined based on FONHEP's previous year experience. However, there was no evidence that costs were based on projected specific trips to allow us to conclude on their reasonableness.
Local travel:	To fulfill the proposed objectives and goals, the project foresees travels by professional and support personnel across the country. To arrive at this amount, we did not obtain the number of trips to be made by personnel, by area. Thus it was not possible to assess the the reasonableness of this item.
Fuel and maintenance:	FONHEP estimated uniform monthly amounts based on the number of automobiles, trucks and motorcycles. This method did not consider circumstances specific to each vehicle such as, for fuel expenses: estimated mileage per gallon and numbers of trips anticipated across the country, and for maintenance expenses: percentages of each vehicle acquisition cost. It was not therefore possible to evaluate the reasonableness of this item.
b.4 Materials and supplies: US \$32,907	FONHEP management indicated that this amount represents only a small portion of the total budget for materials and supplies, and that the largest portion is provided by FSU. The total amount was not estimated and the documentation evidencing FSU's contribution was not available. As a result, we could not determine the reasonableness of the amount shown under this line item.

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1. b. Other operating expenses:
(continued)

Comments

b.5 Other costs:
US \$203,570

We could not determine the reasonableness of several line items and our evaluation indicated that other line items may be over or understated as explained below:

Equipment maintenance,
property and casualty
insurance: US \$11,164

Bases for estimating those costs were not provided.

Mail, communication
and utilities:
US \$73,374

Explanatory notes to the budget indicate that amounts estimated are based on the project's recent experience as reflected in the project's books. However, our projections using the amounts of the accounting records at the dates stated in the explanatory notes presented by FONHFP indicate that the amounts may be overstated.

Printing, photocopies,
office maintenance:
US \$ 52,576

Explanatory notes to the budget indicate that amounts estimated are based on the project's recent experience as reflected in the project's books. However, our testing and projections using the amounts of the accounting records at the dates stated in the explanatory notes presented by FONHEP indicate that the amounts may be understated.

2. School support:
US \$ 2,402,560

School support includes funding to support school operations and to repair school buildings.

FONHEP signs contracts with each school and the amount of the support is determined by the number of pupils attending the school based on attendance log books.

2. School support:
US \$ 2,402,560 (continued)

However, FONHEP school monitors evaluated school attendance and in the majority of the cases found that actual attendances are lower than the numbers recorded in the attendance log books (see finding no. 1 in the internal control structure section of this report).

Schools may choose as an option of their contracts with FONHEP to undertake renovations, but not full constructions, of their school premises. Our review disclosed that the school support line item included amounts for several complete constructions, for which a separate line item is provided in the budget under the caption "School construction and office renovation".

3. Institutional Development:
US \$765,843

We cannot determine the reasonableness of several components of this section of FONHEP's budget as explained below:

3.b. Travel and transportation: US \$68,280

This includes fuel and maintenance and per diem expenses. As with the travel and transportation budget included as part of the Other Operating Expenses at (1.b.3.) above, rates are not based on factors specific to the vehicles, and number of travel days are not determined based on projected trips by area.

3.c. to 3.f. Materials and supplies, equipment, training and other costs: US \$217,323

Explanatory notes provided by FONHEP in support of these line items include differences between the summary and the details of the budget, but do not explain the nature and basis for estimating those amounts.

5. Equipment: US \$33,320

Explanatory notes to the budget refer to proforma invoices and a list of equipment to be acquired. We obtained the documentation on the motorcycles and generation, but the documents relative to office equipment were not made available to us. We cannot therefore determine their reasonableness.

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6. School construction and office renovation:
US \$20,833

Based on detailed estimates provided by FONHEP's engineer and the number of schools to be built, the school construction budget is understated. Part of the understatement is due to reclassifications of the school construction costs budget into the school support budget.

THE INCENTIVES TO IMPROVE BASIC EDUCATION PROJECT
MANAGED BY THE HAITIAN FOUNDATION FOR PRIVATE EDUCATION

USAID/HAITI PROJECT NO. 521-0190

STATEMENT OF PROPOSED COSTS

EXPRESSED IN U.S. DOLLARS (1)

	<u>Project total</u> <u>1989-1992</u>	<u>Compliance with</u> <u>guidelines</u>	<u>Insufficient</u> <u>documentation</u>	<u>Amounts</u> <u>that may be</u> <u>overstated</u>	<u>Amounts</u> <u>that may be</u> <u>understated</u>
1. Operating Expenses					
a. Salaries fringe benefits	\$ 1,410,278	1,410,278	-	-	-
b. Other operating expenses - Central Office					
b.1 Consultants	35,050	-	35,050	-	-
b.2 Temporary assistants	14,084	-	14,084	-	-
b.3 Travel and transportation	283,959	-	283,959	-	-
b.4 Materials & supplies	32,907	-	32,907	-	-
b.5 Other costs	203,570	66,456	11,164	73,374	52,576
	<u>569,570</u>	<u>66,456</u>	<u>377,164</u>	<u>73,374</u>	<u>52,576</u>
2. School support	2,402,560	-	-	2,402,560	-
3. Institutional Development Program Funds					
a. Salaries and fringe benefits	480,240	480,240	-	-	-
b. Travel and transportation	68,280	-	68,280	-	-
c. Materials and supplies	23,150	-	23,150	-	-
d. Equipment	19,171	15,000	4,171	-	-
e. Training	93,403	-	93,403	-	-
f. Other costs	81,599	-	81,599	-	-
	<u>765,843</u>	<u>495,240</u>	<u>270,603</u>	<u>-</u>	<u>-</u>
4. Training - Central Office	50,910	50,910	-	-	-
5. Equipment	33,320	-	33,320	-	-
6. School construction and office renovation	20,833	-	-	-	20,833
7. Audit	50,000	50,000	-	-	-
Total grant costs	<u>\$ 5,303,314</u>	<u>2,072,884</u>	<u>681,087</u>	<u>2,475,934</u>	<u>73,409</u>

(1) The exchange rate used was Haitian Gourdes 6 = US \$ 1.00

KPMG Mérové-Pierre — Cabinet d'Experts-Comptables

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INCENTIVES TO IMPROVE BASIC EDUCATION PROJECT

MANAGED BY THE HAITIAN FOUNDATION

FOR PRIVATE EDUCATION

USAID/HAITI PROJECT NO. 521-0190

Management Capability

Independent Auditor's Report

We have performed an award survey of the statement of proposed costs of the Haitian Foundation for Private Education (FONHEP) for the activities assigned to it under the Incentives to Improve Basic Education Project, USAID/Haiti Project no. 521-0190, and have issued our report dated May 31, 1991, in which we disclaim an opinion due to scope limitations.

As part of the award survey, we have performed an evaluation of the FONHEP's management capability to manage the activities assigned to it under the above mentioned project. Our evaluation included the following areas we consider relevant to the criteria established by USAID/Haiti as set for in its statement of work for the award survey.

1. Adequacy of staffing levels in regard to current and proposed levels of project activity.
2. Past performance in administering similar projects.
3. Accuracy and timeliness of submission of reports and other project documentation.
4. Past performance in financial management and accuracy of financial projections in relation to project needs.

Based on our study and understanding of the criteria included in the statement of work referred to in the preceding paragraph, we believe that FONHEP has the management capability to provide sufficient administration and span of control in relation to project no. 521-0190.

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

KPMG - Mérové-Pierre - Cabinet d'Experts-Comptables
May 31, 1991

KPMG Mérové-Pierre — Cabinet d'Experts-Comptables

Comptables Professionnels Agréés d'Haïti
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INCENTIVES TO IMPROVE BASIC EDUCATION PROJECT

MANAGED BY THE HAITIAN FOUNDATION

FOR PRIVATE EDUCATION

USAID/HAITI PROJECT NO. 521-0190

Financial Capability

Independent Auditor's Report

We have performed an award survey of the statement of proposed costs of the Haitian Foundation for Private Education (FONHEP) for the activities assigned to it under the Incentives to Improve Basic Education Project, USAID/Haiti Project no. 521-0190, and have issued our report dated May 31, 1991.

As part of the award survey, we have performed an evaluation of the FONHEP's management capability to manage the activities assigned to it under the above mentioned project. Our evaluation included to the extent we considered necessary, a review of FONHEP's assets on hand, its estimated receipts and disbursements for the six-month period ending January 31, 1990 and the budget of the Incentives to Improve Basic Education Project (PROBED). The following areas were considered relevant to the criteria expressed in the statement of work for review of the above project:

1. Current assets on hand were sufficient to pay expenses until USAID/Haiti made periodic reimbursements.
2. FONHEP has realistically projected expenses in respect to planned staffing levels, and present and planned activities, and the funds programmed under the project are sufficient to meet the project's operating costs.

Based on our study and understanding of the criteria included in the statement of work referred to in the preceding paragraph, we believe that FONHEP has the financial capability to manage the above mentioned project.

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

KPMG - Mérové-Pierre - Cabinet d'Experts-Comptables
May 31, 1991

KPMG Mérové-Pierre — Cabinet d'Experts-Comptables

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INCENTIVES TO IMPROVE BASIC EDUCATION PROJECT

MANAGED BY THE HAITIAN FOUNDATION

FOR PRIVATE EDUCATION

USAID/HAITI PROJECT NO. 521-0190

Internal Control Structure

Independent Auditor's Report

We have performed an award survey of the statement of proposed costs of the Haitian Foundation for Private Education (FONHEP) for the activities assigned to it under the Incentives to Improve Basic Education Project, USAID/Haiti Project no. 521-0190, and have issued our report dated May 31, 1991.

Except for the limitation disclosed in our report on the statement of proposed costs, we conducted our survey in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the survey to obtain reasonable assurance about whether the statement of proposed costs is free of material misstatement.

In planning and performing our survey we considered FONHEP's internal control structure to manage the proposed project, in order to determine our survey procedures for expressing our opinion on the statement of proposed costs and not to provide assurance on FONHEP's internal control structure.

The management of FONHEP is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation.

We noted the following matters described as findings 1 to 5 in the following pages involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the project may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe that the reportable conditions included in findings 1 to 5 described in the following pages are material weaknesses.

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

KPMG - Mérové-Pierre - Cabinet d'Experts-Comptables

May 31, 1991

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AWARD SURVEY OF THE
INCENTIVES TO IMPROVE BASIC EDUCATION PROJECT
MANAGED BY THE HAITIAN FOUNDATION
FOR PRIVATE EDUCATION
USAID/HAITI PROJECT NO. 521-0190

Internal Control Structure

Findings

1. Some proposed costs are not based on the most current, complete and accurate data available

Condition:

As detailed in the report on proposed costs, several line items of the cost proposed by FONHEP for USAID/Haiti grant funding were not adequately estimated and documented and other line items may be over or understated.

Criteria:

According to A.I.D. policy, FONHEP should realistically project expenses in respect to planned staffing levels, and present and planned activities.

Cause:

FONHEP thought that providing general estimates was sufficient to establish the budget. FONHEP did not think it was necessary to prepare detailed schedules to support the cost components of each line item.

Effect:

Some projected expenses may be under or overstated and may not agree with planned activities.

Recommendation:

FONHEP should provide USAID/Haiti with a revised cost proposal for the line items that are insufficiently documented or that may be over or understated, as detailed in the report on proposed costs.

2. Need to strengthen the control of school attendance and its reporting

Condition:

FONHEP's contracts with the schools participating in the school support program were based on the numbers of pupils attending the schools. FONHEP's inspectors measure actual attendance during their visits to the schools, and at our request, they prepared schedules comparing declared to actual attendance for the year 1989-1990. Our review of those schedules indicated the following:

- o Attendances measured by FONHEP's inspectors are lower than numbers recorded in the attendance log books, in the majority of cases. Inspection reports may indicate attendance numbers lower than reported numbers by a range of 5% to 95%.
- o In our review of 16 inspection reports indicating attendance numbers lower by 30% to 77 % than the numbers provided in the contracts, reasons for the differences are not documented in 11 cases reviewed.

Criteria:

Because the amounts of contracts with the schools are based on the number of pupils attending the schools, the attendance numbers to be used should be independently verified.

Amounts of contracts with the schools should reflect actual school needs, based on the criteria defined by the project.

Cause:

The majority of schools participating in the project are located in rural and poor areas. Independent evaluation reports demonstrate that pupil attendance in rural and poor areas are lower than the pupil registrations. This situation is inherent to the logistical and economic conditions of the rural and poor environment. Following are the causes identified for those differences:

- o On work days, older children stay home to attend to younger ones in the parents' absences.
- o During the rainy season, overflowing rivers may prevent access to the schools.
- o At crop time, children are required to work in the field.
- o Parents do not have money for sending their children to school.

- o Pupils whose parents cannot pay the tuition are sent home by the school directors.

Effect:

Amounts of contracts with the schools may be higher than the established basis. Because inspections were not carried out in the same period and statistical conditions for their measurement were not defined, the amounts of possible overstatements of contracts cannot be determined.

Because major components of the individual school support budgets, such as instructors training seminars, school equipment and furniture and school building renovation, consist of items of a long-term investment nature, amounts allocated to the schools may be adequate if evaluated on the basis of a range rather than a specific number of students. In view of the difficulties faced in the accurate measurement of school attendance due to the current environment of the rural education system, as stated in the report section of the statement of proposed costs, a budget basis by range of students instead of by specific numbers would be more readily controllable and therefore reliable.

Recommendations:

- o FONHEP should amend contracts with the schools based on pupil attendances measured by FONHEP school inspectors. The bases to the contracts could be defined as a range of students instead of a specific number of students. A tolerable absenteeism rate in relation to registration numbers used for calculating contract amounts should be established. The tolerable rate to be used could come from the various evaluation reports on pupils' absenteeism in rural and poor areas.
- o FONHEP should establish a systematic school inspection timetable to ensure that attendance is measured at expected days of maximum attendance, based on weather conditions, times other than crop periods, and other circumstances specific to the areas visited.
- o FONHEP should establish a follow-up inspection plan to remeasure attendance of schools showing numbers lower than predetermined acceptable levels. Inspectors should search for reasonable explanations of wide differences, including those of deliberate overstatements by school directors. To ensure objectivity and continued independence of inspectors, follow-up inspections should be carried out by inspectors other than those who made the first visits. Likewise, random follow-up visits of schools whose attendance levels were measured to be lower than the acceptable levels by first school inspectors should be carried out by second inspectors.

3. Control over resale of textbooks and supplies by the schools need to be strenghtened

Condition:

One option of the contracts with the schools in the school support program provides for the delivery of textbooks and supplies to the schools and for the resale of those items to the pupils at a fraction of their costs. The contract provides for the use of the proceeds in partially financing the school's activities under the school support programs. We reviewed controls over the resale program and noted the following weaknesses:

- o FONHEP did not record deliveries to the schools in its accounting books as accounts receivable from the schools. Revenues are recorded at time of receipt of the sale proceeds by the schools.
- o A timetable for remittance of sales and stock reports by the schools has not been established.
- o There were no summary reports to provide information about total deliveries to schools at resale prices, amounts sold by schools, amounts received by FONHEP, and values inventories kept at the schools. The reports were prepared at our request including the following information on resale prices for the period 1988-1990:

	<u>Number of schools by sector</u>		
	<u>CEEC (1)</u>	<u>FEPH (2)</u>	<u>Independent</u>
Total number of schools covered	97	112	49
Schools that did not submit sales reports	19	23	15
Inventories on hand and sales reported by the schools are lower than supplies delivered by FONHEP	49	*	18
Inventories on hand and sales reported by the schools are higher than supplies delivered by FONHEP	31	*	18
No amounts of sales reported	10	26	7
No amounts of stocks reported	16	112	7
Proceeds remitted to FONHEP as a percent of reported sales	92%	**	62%
Proceeds remitted to FONHEP as a percent of supplies delivered by FONHEP	46%	19%	26%

Number of schools by sector
CEEC (1) FEPH (2) Independent

Inventories on hand as a per- cent of supplies delivered by FONHEP	41%	*	52%
--	-----	---	-----

(1) Commission Episcopale des Ecoles Catholiques

(2) Fédération des Ecoles Protestantes d'Haiti

* Cannot be determined for this sector. Inventories on hand were not provided

** Cannot be determined for this sector because of the high number of incomplete or not submitted reports

The following conclusions may be reached from the information provided by:

- o Schools whose total inventories and sales reported add up to less than total supplies received from FONHEP may have either understated their sales or understated their inventories.
- o Schools whose total inventories and sales reported add up to more than total supplies received from FONHEP may have sold the items at prices higher than those authorized by FONHEP.
- o The relatively high percentage of inventories on hand may indicate either that schools may have received more supplies than actually needed, highlighting the issue presented in finding no. 2 about actual attendances lower than recorded attendances, or that resale prices used by the schools may be too high for the pupils' financial means.
- o The relatively high number of schools which submitted no reports or whose reports were incomplete, and the fact that remittances are lower than declared sales, particularly in the cases of the FEPH and independent sectors, suggest that FONHEP's monitoring of those schools is insufficient.
- o Revenue projections from the resale program based on present and future contracts for the current and following year were not prepared.
- o Inventories on hand declared by the schools were not verified by FONHEP.

Criteria:

FONHEP's documentation about the resale program should provide for readily available information about resale values of items delivered to the schools, amounts received and values of items remaining on stock at the schools.

Cause:

Originally, the project did not provide for the resale of textbooks. This idea came along after the beginning of the project. The textbook and supplies resale program was in its development stage during the period being evaluated, and FONHEP did not consider it necessary at this stage to prepare revenue projections because present sources of financing, including actual proceeds from textbook sales, are sufficient to meet the current budget needs. On the basis of the experience acquired, controls are being strengthened.

Effect:

In the absence of a close monitoring by FONHEP of the resale program, sales may be underreported, proceeds are not remitted promptly, value of stocks on hand at the schools and balances to be received from the schools based on total stocks delivered by FONHEP cannot be readily determined.

Recommendations:

- o FONHEP should record textbooks and supplies at their resale values at time of their deliveries to the schools. A control account and individual school accounts should be used.
- o FONHEP should establish a timetable for regular submission by the schools of reports on items sold and related proceeds, and items on hand. FONHEP should check schools detailed data against its own records to ensure the accuracy of the schools records.
- o FONHEP's school inspectors should take physical counts of the inventories on hand at the schools and reconcile them to the schools' reports. Discrepancies identified should be investigated and explained.
- o FONHEP school inspectors should determine whether items are sold at prices fixed by FONHEP by inquiring with beneficiaries the prices they paid for the items. Resale prices of textbooks and notebooks could be pre-marked before their shipments to the schools.
- o FONHEP should prepare revenue projections from the resale of textbooks, based on current and anticipated contracts with the schools.

At the date of this report, FONHEP management had issued instructions for implementing recommendations similar to the ones described above.

4. FONHEP's procurement practices do not always comply with A.I.D. regulations nor with its own procedures manual

Condition:

Our evaluation of FONHEP's procurement practices revealed the following situations of noncompliance with A.I.D. regulations and its own procedures manual:

- o Though the procedures manual requires that purchase orders be approved by the executive director, purchase orders for construction materials were approved by the engineer and the storekeeper, and purchase orders for office supplies were approved by the administration department head.
- o Receipts of materials and supplies are not acknowledged by the storekeeper. Though he controls items received against vendors' delivery slips, he does not fill out a receiving report nor provides evidence of his review by signing the delivery slips.
- o FONHEP procedures manual requires that three proforma invoices be obtained before placing an order for purchases higher than \$300. This procedure was not followed for the purchases we reviewed.

Criteria:

- o Purchase orders should be approved by the executive director, as required by FONHEP's administrative procedures manual, or by authorized personnel other than the custodians or recipients of the materials.
- o The storekeeper should notify the accounting department of his receipt of items ordered as a requirement to process related payments.
- o AID's and FONHEP's procedures require that three proforma invoices be obtained before making purchases higher than \$300, in order to ensure that purchases are made on a competitive basis.

Cause:

- o Management believes that the requirement of approval of all purchase orders by the executive director is not cost effective, in view of the director's heavy work load. In management's view, purchases are reviewed for propriety when the executive director approves the related payments.
- o Because the storekeeper signs copies of the purchase orders and sends them to the accounting department, FONHEP did not consider it necessary to complete a separate receiving report.
- o Management indicated that not all suppliers are willing to provide the required proforma invoice. In other cases, some suppliers are out of stock for the required items.

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Effect:

- o Lack of a well defined policy for approval of purchase orders might result in inefficiencies or in irregularities due to approvals by persons whose functions are in conflict with purchase order authorizations. Controls by the executive director of disbursements related to the purchases may detect irregularities but will not prevent them.
- o Items and quantities actually received might be different than those ordered. Separately prepared receiving reports will point out discrepancies for the accounting department's review
- o Without documented evidence that purchases are made on a competitive basis, project funds may be used inefficiently.

Recommendations:

- o The procedures manual should specify all required approvals for purchase orders by type and amount of purchase and take into consideration situations of conflict.
- o Prenumbered receiving reports referenced to related purchase orders should be completed for recording all warehouse entries.
- o FONHEP should obtain a minimum of three proforma invoices for purchases higher than \$300. If proforma invoices are not available, price lists, updated at least annually, should be obtained from competitive vendors. Reasons for buying from other than the lowest bidder, such as stock outs, should be documented by the purchaser and approved by management.

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Comptables Professionnels Agréés d'Haiti
Certified Public Accountants

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INCENTIVES TO IMPROVE BASIC EDUCATION PROJECT

MANAGED BY THE HAITIAN FOUNDATION

FOR PRIVATE EDUCATION

USAID/HAITI PROJECT NO. 521-0190

Compliance with Agreement Terms and
Applicable Laws and Regulations

Independent Auditor's Report

We have performed an award survey of the statement of proposed costs of the Haitian Foundation for Private Education (FONHEP) for the activities assigned to it under the Incentives to Improve Basic Education Project, USAID/Haiti Project no. 521-0190, and have issued our report dated May 31, 1991.

As part of the award survey, we have evaluated FONHEP's compliance with agreement terms and applicable laws and regulations. Except for the limitation disclosed in our report on the statement of proposed costs, we conducted our survey in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the survey to obtain reasonable assurance about whether the institution has complied, in all material respects, with agreement terms and applicable laws and regulations.

FONHEP's management is responsible for compliance with agreement terms and applicable laws and regulations. For purposes of our study, we reviewed and tested the matters related to the project as mentioned in the grant agreement between FONHEP and USAID/Haiti dated July 27, 1989 and applicable laws and regulations.

The results of our tests indicate that, with respect to the items tested, FONHEP complied, in all material respects, with the provisions referred to in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that FONHEP had not complied, in all material respects, with those provisions.

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

KPMG - Mérové - Pierre - Cabinet d'Experts-Comptables
May 31, 1991

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INCENTIVES TO IMPROVE BASIC EDUCATION PROJECT

MANAGED BY THE HAITIAN FOUNDATION

FOR PRIVATE EDUCATION

USAID/HAITI PROJECT NO. 521-0190

LIST OF REPORT RECOMMENDATIONS

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3. FONHEP should establish a systematic school inspection time-table to ensure that attendance is measured at expected days of maximum attendance, based on weather conditions, times other than crop periods, and other circumstances specific to the areas visited..... 19
4. FONHEP should establish a follow-up inspection plan to remeasure attendance of schools showing numbers lower than predetermined acceptable levels. Inspectors should search for reasonable explanations of wide differences, including those of deliberate overstatements by school directors. To ensure objectivity and continued independence of inspectors, follow-up inspections should be carried out by inspectors other than those who made the first visits. Likewise, random follow-up visits of schools whose attendance levels were measured to be lower than the acceptable levels by first school inspectors should be carried out by second inspectors..... 19

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COMMENTS IN RESPONSE TO MEROVEE-PIERRE'S REPORT:
FONHEP AWARD SURVEY
SUBMITTED JOINTLY BY
THE HAITIAN FOUNDATION FOR PRIVATE EDUCATION
AND
THE FLORIDA STATE UNIVERSITY

The two contracting agencies of the Incentives for the Improvement of Basic Education (IIBE) project, the Haitian Foundation for Private Education and the Florida State University (Contractors) have received and reviewed the "FONHEP AWARD SURVEY." The following constitutes a qualified response to the report, and is hereby submitted to AID/Haiti for inclusion in the Final Report. The response is qualified in that it has been prepared without the benefit of legal or professional financial counsel. There has not been ample opportunity to consult with appropriate experts regarding the content of the report nor to prepare a more detailed response. Bearing these circumstances in mind, we issue the following response.

The contractors are in accord with the principal findings of the survey which conclude that:

- *FONHEP does have the management capability to provide sufficient administration and control for the IIBE project;
- *FONHEP possesses the financial capability to manage the project; and,
- *FONHEP has complied with applicable laws and regulations.

With respect to the other findings issued in the report, we respond to the following items.

1. Budget

1.1. School Support

The major concern cited by the auditing firm deals with the item of school support. Given the limited scope of work of the study, the auditing firm was unable to determine the adequacy of costs and therefore did not express an opinion on this item.

We accept this finding, to the extent that it reflects the limited scope of work of the audit and that it recognizes the difficulties and complexities of administering a developmental program in the milieu of rural and economically depressed communities in Haiti. We also note that the Florida State University and the Haitian Foundation for Private Education has done all that is possible to respond to the contractual prescriptions of the Project Paper, and has made the best possible use of available data.

We presume it is equally understood that expenses incurred under the item of school support correspond to financial resources available in the project, and that these expenditures are far below the needs of participating schools in terms of investment and operating costs.

We accept the recommendations of the auditing firm with respect to the need to use a more flexible and verifiable base for distributing funds to participating schools. We have, nevertheless, initiated an administrative mechanism to ensure that attendance figures used to calculate the amount of school support will be exact.

1.2. Other budget items

With respect to the items of "Other operational costs," "Institutional development," "Equipment," and "School construction and office renovation," we do not share the reticence of the auditing firm to judge the adequacy of these costs. We have provided ample and accurate documentation for every one of these expenditures. We feel the documentation is sufficient for the firm to make a positive declaration.

We do admit that the analysis of these costs could have been more detailed. However, we have noted that the auditing firm did not issue a conclusive opinion about costs overstatement or understatement. We suggest the hesitation to render an opinion is an indication that the firm recognizes the difficulty of budgetary forecasting in a period of extreme inflation stemming from political and economic problems in Haiti during the life of the IIBE project.

2. Internal control structure

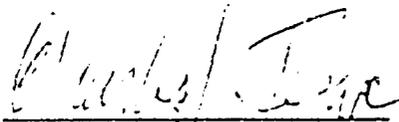
We are in concurrence with the auditing firm's recommendations that school attendance measures be tightened. This process has already begun and will be further developed.

We are also in accord with the need to control the delivery, sale of instructional materials and reimbursement of funds from those activities. As the report noted, steps to realize the recommendations of the report have already been taken by FONHEP.

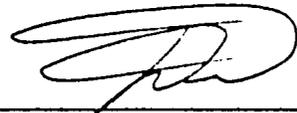
With respect to the finding FONHEP's procurement practices being out of compliance with AID regulations and with its own procedures manual, we can only respond that there have been many occasions on which it has been impossible to conform to precise practices. For example, it is policy to have multiple bids for procurement, but in the case of textbooks, in some instances, there is but one supplier in Haiti.

We offer one final observation. There has been a significant transition in project management, with the creation of FONHEP and the Foundation assuming first some tasks and then greater ones from Florida State University as the organization has developed. The most difficult part of that transition is complete, but it also occurred during the period under audit. We have undertaken adequate measures to see that procurement policy is applied appropriately.

Respectfully submitted by,



Charles Tésar, Ph.D.
Chief of Party
F.S.U.



Rosny Desroches
Executive Director
FONHEP

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