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**AUDIT OF
SAVE THE CHILDREN FEDERATION - INDONESIA**

AUDIT REPORT NO. 5-497-91-06-N

SEPTEMBER 6, 1991

Price Waterhouse concluded that the Fund Accountability Statement was presented fairly and internal controls and compliance with applicable laws and regulations were generally adequate. However, there were \$155,360 in questioned costs and the auditors identified some areas where internal controls could be improved.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR AUDIT
- Singapore -

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September 6, 1991

MEMORANDUM FOR: Lewis P. Reade
Mission Director, USAID/Indonesia

FROM: 
James B. Durnil, RIG/A/Singapore

SUBJECT: Audit of Save The Children Federation - Indonesia
Audit Report No. 5-497-91-06-N

The accounting firm of Drs. Hadi Sutanto & Rekan, the Indonesian affiliate of Price Waterhouse, performed a financial audit of PVO Co-Financing II grant no. 497-0336-G-86-2 to Save The Children Federation (STCF) in Indonesia. Five copies of the audit report are enclosed for your action.

STCF supports the urban development efforts in Indonesia by implementing a community-based integrated development program in Duri, an urban area of Jakarta and in Rangkasbitung, a rural community in West Java. Under the PVO Co-Financing II Project, USAID/Indonesia awarded a grant to STCF to assist in financing this development program. Project activities include water and sanitation education, income generation and credit union development, and housing improvement. As of February 28, 1991, USAID/Indonesia disbursed \$327,339 under the grant to STCF, of which \$323,134 was expended during the period under review.

The audit objectives were to determine whether the Fund Accountability Statement presented fairly grant receipts and expenditures for the 56-month period ended February 28, 1991, whether internal controls were adequate, and whether STCF complied with laws, regulations and agreement terms. The amount audited was \$323,134 in expenditures for the period July 1, 1986 through February 28, 1991.

Price Waterhouse concluded that the Fund Accountability Statement was presented fairly and internal controls were generally adequate. However, there were \$155,360 in questioned costs of which \$154,564 related to personnel, overhead and other costs which

- 1 -

were based on estimates instead of actual expenditures incurred that were submitted to USAID/Indonesia for reimbursement, and \$796 of unsupported costs. In addition, the auditors identified some areas where internal controls could be improved. The details of these questioned costs and internal control deficiencies are set out on pages 8 to 10 and 14 to 23 of the report. Finally, the auditors concluded that STCF generally complied with applicable laws and regulations and provisions of the grant agreements.

USAID/Indonesia and STCF indicated agreement with the audit findings and recommendations. STCF's comments are shown next to the findings, while the full text of these comments are shown as Appendix I.

Recommendation No. 1: We recommend that USAID/Indonesia resolve the \$155,360 in questioned costs (\$796 unsupported) and recover from Save The Children Federation any costs not allowable under the grant.

Recommendation No. 2: We recommend that USAID/Indonesia require Save The Children Federation to establish and implement written procedures for canceling paid documents and for preventing potential conflict of interest in respect of authorized check signatories.

We appreciate the courtesies and cooperation the Mission and STCF extended to Price Waterhouse and our staff during the course of this audit.

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

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AUDIT OF
PRIVATE VOLUNTARY ORGANISATION CO-FINANCING II
GRANT NO. 86-2
SAVE THE CHILDREN FEDERATION
INDONESIA



**AUDIT OF
PRIVATE VOLUNTARY ORGANISATION CO-FINANCING II
GRANT NO. 86-2
SAVE THE CHILDREN FEDERATION
INDONESIA**

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Appendix I :

Management's written response to recommendations

Drs. Hadi Sutanto & Rekan
Price Waterhouse



15 August 1991

BAS/0242/DBD/1s

Mr James B Durnil
Regional Inspector General/
Audit / Singapore
United States Agency for
International Development (USAID)
111 North Bridge Road
17 - 03 Peninsula Plaza
Singapore 0617

Dear Mr Durnil,

This report presents the results of our audit of the Private Voluntary Organisation Co-Financing II Grant No. 86-2 granted to and administered by Save The Children Federation (STCF) in Indonesia. This audit of the grant was performed in Indonesia under the Indefinite Quantity Contract (IQC) A.I.D.no. 497-0000-I-00-0072-00.

1.1 Background

A total of US\$ 327,339.36 was advanced to STCF under A.I.D. grants up to 28 February 1991 to fund activities in Duri Utara (Jakarta) and Rangkasbitung (West Java).

The funds being provided have been used for the development of community capacities through the program titled "A Community Based Integrated Urban Development Program" to promote the attainment of economic self reliance in Duri Utara (Jakarta) and Rangkasbitung (West Java).

JAMES B DURNIL
AUGUST 15, 1991



1.2 Scope of Examination

As required by the delivery order and as stipulated in the statement of work attached thereto :

- i. the audit was conducted in accordance with generally accepted auditing standards and the "Government Auditing Standards" (1988 Revision).
- ii. recommendations arising from the audit have been prepared and presented in accordance with the "Guide of Financial Audits contracted by the Agency for International Development".
- iii. The period subject to audit was from July 1, 1986 through to February 28, 1991

The audit work was carried out at USAID/ Indonesia office in Jakarta and STCF office in Jakarta. The field work was carried out in Duri Utama, Jakarta and Rangkasbitung, West Java.

The nature and extent of our audit work was determined by us and to establish the minimum requirements for the audit, reference was made to Article III of the Statement of Work, as attached to the Delivery Order dated September 28, 1990. The audit methodology and procedures required, together with other work :

- i. Initial meetings and interviews with the USAID/Indonesia project manager and the STCF country representative.
- ii. An audit of Grant No. 86-2 including an examination of funds received and disbursed, record keeping and report preparation.
- iii. Field audit work and site visits (Duri Utama, Jakarta and Rangkasbitung, West Java office).
- iv. An audit exit meeting with USAID/Indonesia - Office of Finance representative and project manager, Non-Federal auditor and STCF country representative. Representatives from RIG/A/Singapore also attended the exit conference for this audit.

MR JAMES B DURNIL
AUGUST 15, 1991



1.3 Audit Objectives

- i. To perform an audit of STCF activities for Grant no. 86-2 in accordance with government auditing standards and audit objectives and procedures delineated the basic IQC contract and the statement of work attached to the delivery order.
- ii. To report on the statement of income and expenditure, the system of internal control and compliance with A.I.D. agreements and other regulations.
- iii. To report audit findings identified during the audit and provide constructive recommendations for improvement.

1.4 Results of the Audit

Our audit work has resulted in a qualified opinion in respect of the statement of receipts and payments and six recommendations in respect of internal control and compliance. Our findings and recommendations have been discussed with the STCF Country Representative. STCF's management comments follow each finding and recommendation for improvement. In summary :

i. Statement of receipts and payments

From our work performed we have issued a qualified opinion in respect of the statement of receipts and payments as the amount shown for total payments includes estimated costs. Refer to our report on page 5 and detailed finding on pages 7 to 10.

ii. Internal Control system

From our work performed we have concluded that the system of internal control is generally satisfactory. Refer to detailed audit findings and recommendations for improvement on pages 14 to 23.

iii. Compliance with A.I.D. agreements, laws and regulations.

We have noted certain instances of non-compliance and, except for those instances, we have concluded that, for items tested, the program was substantially in compliance with the applicable A.I.D agreements, laws and regulations.

MR JAMES B DURNIL
AUGUST 15, 1991



For items not tested nothing came to our attention that caused us to believe that STCF had not complied, in all material aspects, with applicable A.I.D agreements, laws and regulations.

The findings in the attached report referred to above have been presented and discussed with the management of STCF. Management's detailed written response has been noted herein. Management agrees with the facts of the matters we have raised and a copy of their written response has been included as Appendix I to this report.

During our work we were alert to transactions or events that could be indicative of fraud and illegal expenditure or acts . None were noted.

2.0 Previous audit

The last audit of the grantee was undertaken by the accounting firm KPMG - Hanadi Sujendro. We have conducted a follow up of matters raised in their management letter and note that there were no items not yet addressed and some points are now not applicable. Consequently we have nothing to report from the previous audit review.

Please do not hesitate to contact us should you have any question.

Yours sincerely,

Drs. Hadi Sutanto & Rekan
Price Waterhouse



AUDIT OF
PRIVATE VOLUNTARY ORGANISATION CO-FINANCING II
GRANT NO. 86-2
SAVE THE CHILDREN FEDERATION
INDONESIA

STATEMENT OF RECEIPTS AND PAYMENTS
INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of receipts and payments of Private Voluntary Organisation Co-Financing II Grant No. 86-2, granted to and administered by Save The Children Federation for the 56 month period ended 28th February 1991. The statement is the responsibility of Save The Children Federation management. Our responsibility is to express an opinion on the financial statement based on our review.

We conducted our audit in accordance with generally accepted auditing standards and government auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of receipts and payments is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Total expenditures, as summarised in the federal cash transaction report and as reported in the attached statement of receipts and payments totalling \$ 323,134.47, includes the expenditure categories of personnel, overhead and other costs totalling \$93,415.07, \$25,568.29 and \$35,580.27 respectively. From the work we have performed we note that the expenditures included in those categories are based on estimated and not actual expenditure incurred. Until client reconciliations are completed to adjust estimates we cannot conclude in respect of these cost categories. Refer audit finding no: 1 on page 8 for further details.

(Continued).



AUDIT OF
PRIVATE VOLUNTARY ORGANISATION CO-FINANCING II
GRANT NO. 86-2
SAVE THE CHILDREN FEDERATION
INDONESIA

STATEMENT OF RECEIPTS AND PAYMENTS
INDEPENDENT AUDITORS' REPORT (Continued)

In our opinion, except for the financial effect of such adjustments, if any, as might have been determined to be necessary had the actual expenditures been used instead of estimates as referred to in paragraph three on the previous page, the statement of receipts and payments presents fairly the receipts and payments of Grant no. 86-2 granted to and administered by the Save The Children Federation, in conformity with generally accepted accounting principles.

JAKARTA,

15 August, 1991



AUDIT OF
 PRIVATE VOLUNTARY ORGANISATION CO-FINANCING II
 GRANT NO. 86 - 2
 SAVE THE CHILDREN FEDERATION
 INDONESIA

STATEMENT OF RECEIPTS AND PAYMENTS
 FOR THE PERIOD JULY 1, 1986 TO FEBRUARY 28, 1991

	US\$	Notes
	-----	-----
Receipts :		
Funds received from USAID	327,339.36	
Payments :		
Total payments period to date	323,134.47	(1)

Funds available / unallocated funds	4,204.89	
	=====	

Notes :

(1) Breakdown by category of expenditure :

	US\$	

- Personnel	93,415.07	(2)
- Overheads	25,568.25	(2)
- Travel	3,918.21	
- Program	157,612.94	
- Capital assets	7,039.69	
- Other	35,580.31	(2)

	323,134.47	
	=====	

(2) Refer audit finding number 1, page 8.



STATEMENT OF RECEIPTS AND PAYMENTS

1.0 Audit finding No. 1 - Reconciliation of estimated and actual expenditure

i. Condition :

Included in total expenditure are the cost categories of personnel, overhead and other costs totalling \$ 93,415.07 \$25,568.29 and \$ 35,580.27 respectively. Our review of actual expenditures in support of the figures per the federal cash transaction report has revealed that the figures are based on estimates and not actual costs incurred. In addition, we noted that travelling and other expenses (Jakarta office) amounting to \$ 514.43 and \$ 282.24 were unsupported and overstated, respectively.

These questioned costs are summarized in the following schedule.

Cost description	US\$	Cause
1. Personnel costs	\$93,415.07	Amount based on estimates
2. Overhead costs	25,568.29	Amount based on estimates
3. Other expenses	35,580.27	Amount based on estimates
4. Travelling expenses (Jakarta office)	514.43	No supporting documents located (Jakarta office)
5. Other expenses (Jakarta office)	282.24	Difference between ledger and subledger (i.e. over statement of costs reported)

ii. Criteria :

Grant regulations and the declaration on the Federal Cash Transaction pro-forma (Form 272) state that funding drawdowns of authorised grant money can only be made in respect of expenditure actually incurred. Periodic draw downs of grant funds made through submission of Federal Cash Transaction Report, should therefore be based on expenditure actually incurred. Also under the terms of the agreement of the Grant only actual expenditure can be funded and all such expenditure must be fully supported by original documentation. To the extent that expenditure reported is identified as not meeting these guidelines they constitute questioned costs.



STATEMENT OF RECEIPTS AND PAYMENTS

1.0 Audit finding No. 1 - Reconciliation of estimated and actual expenditure (Continued)

iii. Cause :

- a. Total costs reported for items 1, 2 and 3 were based on estimates because the auditee has not performed internal reconciliations required between actual and estimated information in order to adjust estimates. It was the intention of STCF to perform such reconciliations at the end of the grant period.
- b. For item 4, travelling expenses (Jakarta office) of \$514.43 are unsupported as management assert that with the relocation of office premises some documentation may have been misfiled.
- c. Overstatement of other expenses (Jakarta office) of \$282.24, item 5, occurred due to an accounting / reporting error, which remained uncorrected.

iv. Effect :

The non completion of reconciliations and has lead to the reporting of estimated and not actual costs incurred in Federal Cash Transaction Reports resulting in questioned costs of \$154,563.63 (\$93,415.07, \$25,568.29 and \$35,580.27) and possible unallowable costs. The financial effect of this condition is still to be determined. Also, the unavailability of adequate supporting documentation has resulted in potentially disallowed costs of \$796.67 (\$514.43 and \$282.24) being charged to the grant and reimbursed.

v. Recommendation :

- a. We recommend that the auditee resolve the \$154,563.63 in questioned costs by completing the necessary reconciliations between actual and estimated costs so as to achieve the following :
 - Adjust reported expenditure to actual expenditure incurred.
 - highlight level of questioned costs or over funding, if any.
 - report actual expenditures incurred to the USAID Mission.



STATEMENT OF RECEIPTS AND PAYMENTS

1.0 Audit finding No. 1 - Reconciliation of estimated and actual expenditure (Continued)

- b. Further we recommend that in the future Federal Cash Transaction Reports, submitted to USAID for payments, be based entirely on actual expenditure incurred.
- c. Management should review the unsupported costs of \$796.67 and determine the necessity to adjust the amounts against future reimbursements claimed from USAID. Also, management should ensure that all future costs submitted for reimbursement should be adequately supported by documents and properly recorded in the ledgers which should be periodically reconciled to ensure no overstatement of reported costs incurred.

vi. Management Response :

Save The Children recognizes the need and responsibility for reconciling the estimated and actual expenditures as noted in the audit report. We will proceed with the necessary steps for completing this reconciliation, prior to the closure of the grant. This will be done in consultation with USAID/Indonesia. With effect from March 1991, no further reporting of estimated H.O. charges will occur under this grant. For any future Co-Fi grants only actual expenditures will be reported.

In regards to recommendation (c) above, Save the Children will credit (reduce) the travel expense line item on the Financial Status Report for May in order to reduce the expenditure amount by \$514.43 and adjust for this finding. Lastly, in relation to item 5, Save the Children's Finance Office will review the Jakarta ledger and subledger to determine which expense figure is correct and will make the appropriate adjustment for \$282.24 in the Financial Status Report for May 1991.

Drs. Hadi Sutanto & Rekan
Price Waterhouse



AUDIT OF
PRIVATE VOLUNTARY ORGANISATION CO-FINANCING II
FINANCIAL GRANT NO. 86 - 2
SAVE THE CHILDREN FEDERATION
INDONESIA

REPORT ON INTERNAL CONTROLS
INDEPENDENT AUDITORS' REPORT

We have audited the statement of receipts and payments and books and records of Private Voluntary Organisation Co-Financing II Grant No. 86-2 granted to and administered by Save the Children Federation for the 56 month period ended 28 February 1991 and have issued our report thereon dated 15 August 1991.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards issued by the Controller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement.

In planning and performing our audit of Grant No. 86-2 we considered the internal control structure of Save The Children Federation in order to determine our auditing procedures for the purpose of expressing our opinion on the statement of receipts and payments and not to provide assurance on the internal control structure.

The management of Save The Children Federation is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the 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.

(Continued)



AUDIT OF
PRIVATE VOLUNTARY ORGANISATION CO-FINANCING II
FINANCIAL GRANT NO. 86 - 2
SAVE THE CHILDREN FEDERATION
INDONESIA

REPORT ON INTERNAL CONTROLS
INDEPENDENT AUDITORS' REPORT(Continued)

For the purpose of this report, we have categorised the significant internal control structure policies and procedures (general and specific controls) into the categories of revenue (receipts) and purchases (disbursements) accounting applications.

For those control categories we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a 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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted other matters involving the internal control structure and its operation that we have reported to the management of Save The Children Federation and recorded these matters and recommendation for improvement on page 14 and 23. Managements formal response is also noted.

(Continued)



AUDIT OF
PRIVATE VOLUNTARY ORGANISATION CO-FINANCING II
FINANCIAL GRANT NO. 86 - 2
SAVE THE CHILDREN FEDERATION
INDONESIA

REPORT ON INTERNAL CONTROLS
INDEPENDENT AUDITORS' REPORT (Continued)

This report is intended for the information of the audit committee, management and others within the Save The Children Federation and United States Agency for International Development. The restriction is not intended to limit the distribution of this report which is a matter of public record.

JAKARTA,
15 August, 1991



INTERNAL CONTROL

2.0 Audit finding no. 2 - Documentation (Semi-annual reports)
- Jakarta Office

i. Condition :

During our examination of the records, we noted that the copies of semi-annual reports for July 1986 to December 1986, January 1987 to June 1987 and July 1987 to December 1987 were not available or filed in the Jakarta office of STCF.

We note though that copies were maintained by USAID at the Jakarta mission.

ii. Criteria :

The grant agreement (section E - Reporting and Evaluation) requires the grantee to prepare semi-annual reports. Additionally grant provisions stipulate a period of 3 years after the close-out of a grant in respect of records and documentation retention.

iii. Cause :

Management assert that with the passing of time and relocation of office premises some original records may have been misfiled.

iv. Effect :

Non retention of reports can lead to difficulties in conducting a subsequent management check/ audit of the reports and may also lead to some expenditure being questioned.

v. Recommendation :

To ensure that all reports have been properly prepared, and a suitable audit trail exists, STCF should maintain a copy of the report and preparation notes as documentation in Jakarta.



INTERNAL CONTROL (Continued)

vi. Management Response :

Save The Children recognizes the need and responsibility to retain important grant documents on file in its office, as outlined in OMB circular A-110. Improvements in our internal filing system since 1989 have prevented further misplacement of grant documents. We have obtained copies of these three Semi-Annual Progress Reports from USAID Indonesia mission, in order to complete our report files. We intend to fully comply with the regulation on documentation for any future grant.



3.0 Audit finding no.3 - Bank reconciliation - Jakarta office

i. Condition :

During our review of bank reconciliations we noted that there was no evidence of review by a responsible officer of the bank reconciliation prepared by the finance officer.

ii. Criteria :

In accordance with good accounting practice, bank reconciliations should be reviewed and approved by a responsible officer. Such a review should be evidenced in writing (i.e. signature).

iii. Cause :

This was discussed with the project director, and he noted that he approves the Financial Report which includes the bank reconciliation but the originals have been sent directly to STCF head office in the United States. Hence, there was no evidence of approval for the bank reconciliation and financial reports maintained locally.

iv. Effect :

Non-review of the bank reconciliation results in lack of effective control over bank account movements and the reconciliation of actual cash funds with the general ledger balances recorded.

v. Recommendation :

Review and approval of the bank reconciliation by a responsible officer should be properly evidenced in writing (signature) and an original authorised version should be maintained in Jakarta.

vi. Management response :

As part of the review and submission process of STCF's monthly financial reports, bank reconciliations are approved. Signed copies of all bank reconciliations are sent to STCF Headquarters, with unsigned copies retained in the Jakarta Office file. The audit recommendation is reasonable and signed copies are now being retained in our files, starting with March 1991.



4.0 Audit finding no.4 - Documentation cancellation - West Java

i. Condition :

During our review of petty cash disbursements we noted that supporting documentation (i.e. invoices) attached to petty cash vouchers were not properly cancelled.

ii. Criteria :

In accordance with good accounting practice supporting documentation with respect to petty cash payments should be cancelled upon presentation to avoid subsequent re-presentation.

iii. Cause :

Management had not taken step to ensure the custodian of petty cash funds were aware of the requirement to cancel documentation supporting expenditure reimbursed from petty cash funds.

iv. Effect :

The notation (cancellation) of supporting documentation helps prevent such documentation being either accidentally or deliberately reintroduced into the payments processing system and thus the duplication of payments being made.

v. Recommendation :

STCF should establish control procedures which effectively notate (cancel) all processed documentation. The notation (cancellation) of supporting documents should be effected by stamping all documents "paid" together with the date of payment.



INTERNAL CONTROL (Continued)

vi. Management Response :

Save The Children recognizes the importance of documentation cancellation and will make the necessary improvements to ensure that this occurs as a normal procedure in the West Java office. A memo notifying the West Java accountant outlining the need to cancel vouchers and supporting documentation has been sent to the West Java Office. This will be followed by a formal visit to the West Java Office by the STCF Finance Officer for follow-up.



5.0 Audit finding no. 5 - Insurance of fixed assets

i. Condition :

In July 1989 a motor cycle, classed as a fixed asset and purchased with grant funds, was stolen. This asset was not externally insured at the time.

ii. Criteria :

Sound management includes taking normal steps to safeguard company assets.

iii. Cause :

Auditee did not perceive the need to insure all assets as there was an internal policy of self-insurance for small fixed assets.

iv. Effect :

Uninsured assets unnecessarily expose the organisation to loss in the event of theft or destruction.

v. Recommendation :

- a. All fixed assets in excess of \$ 500 should be safeguarded from fire, theft or destruction through a insurance or an effective program of self-insurance.
- b. Major assets, the loss of which would cause disruption to the activities of the organisation, should be covered by external insurance to ensure quick and effective replacement.
- c. Fixed assets coming under a program of self-insurance should be promptly replaced at the grantee organisations expense.



INTERNAL CONTROL (Continued)

vi. Management Response :

Save The Children recognizes the need to insure assets and has a formal set of policies and plans to cover its organizational needs. In relation to this audit finding, Save The Children's "Insurance Manual for Overseas Operations" notes that STCF self-insures physical damage and losses to its vehicles. A photocopy of the policy relevant to this specific audit finding has been given to the auditor. Please note that we followed Save The Children's insurance policy and met the terms and responsibility under our self-insurance scheme. The agency substituted an equivalent asset paid with non-federal funds to ensure that program operations were not hindered by the loss of the grant funded motor-cycle.



6.0 Audit finding no. 6 - Supporting documentation (General)
- All centers

i. Condition :

During our review there were a number of instances when there was difficulty in locating for audit inspection, documentation relating to expenditures incurred during July 1986 - June 1989 leading to a delay in the audit of grant expenditure. However, the situation has been improved in later years of the grant when certain changes in personnel were made.

ii. Criteria :

Irrespective of the length of the grant period for the purpose of management / audit checks all document should be readily accessible.

iii. Cause :

Management assert that with the passing of time and relocation of office premises some records may have been misfiled.

iv. Effect :

Delays in locating support documentation can lead to delays in the audit performed or to a situation where costs incurred are questioned.

v. Recommendation :

Whilst our overall conclusion to the support for payment made was satisfactory we would suggest that all original or at least a copy of original documents related to expenditure be routinely filed at head office in Jakarta to assist in the management review of expenditure and to provide an improved audit trail.

vi. Management Response :

Save The Children recognizes the validity of this recommendation. While improvement in this area has been noted since mid-1989, the organization of support documentation prior to this was a weak point. The STCF will continue to improve in the maintenance of supporting documentation as recommended.



7.0 Audit finding no. 7 - Authorized signatories

i. Condition :

Presently there are six office bearers nominated as authorized account signatories for the bank accounts of STCF. Those persons are :

President
The Secretary
Treasurer-Comptroller
Country Representative, Indonesia
Program Advisor, Indonesia
Administration / Finance Manager

As the country representative and program advisor are related by marriage we are of the opinion that they be restricted in that they are not permitted to jointly sign cheques.

ii. Criteria :

Sound internal controls in respect of the disbursement of funds requires appropriate segregation of incompatible duties or relationships in respect of preparation and authorisation of payments.

iii. Cause :

The inclusion of the country representative and his wife on the list of authorized signatories had been sanctioned by Save The Children Fund head office in Connecticut. The low number of responsible officers in respect of STCF organisation in Indonesia has meant it was practical to have the country representative and program advisor as cheque signatories without restriction.

iv. Effect :

There is a potential conflict of interest if the country representative and his wife sign the same cheque.



INTERNAL CONTROL (Continued)

v. Recommendation :

Because of local operating conditions it may be practical for the country representative and his wife to stay on the list as authorized signatories. However we believe there should be a stipulation that if one signs a cheque the other may not sign the same cheque i.e they may not jointly sign a cheque.

vi. Management Response :

Save The Children recognizes the need for adequate internal controls. In respect to the dual authorization of the Country Representative and his wife on Co-Fi Grant bank accounts, Save The Children has formally approved this and copies of the authorization letters have been given to the auditor. However, in recognition that there is the potential for a possible conflict of interest, the Country Representative will request Save the Children's Headquarters to issue a formal letter to its bank noting an amendment to the signatory status, stating that they may not jointly sign a check.

Drs. Hadi Sutanto & Rekan
Price Waterhouse



AUDIT OF
PRIVATE VOLUNTARY ORGANISATION CO-FINANCING II
GRANT NO. 86 - 2
SAVE THE CHILDREN FEDERATION
INDONESIA

COMPLIANCE WITH GRANT AGREEMENT, AND APPLICABLE AND LAWS
REGULATIONS
INDEPENDENT AUDITORS' REPORT

We have audited the statement of receipts and payments and books and records of Private Voluntary Organisation Co-Financing II Grant No. 86-2 granted to and administered by Save The Children Fund for the 56 month period ended 28 February 1991 and have issued our report thereon dated 15 August 1991. We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards issued by the Controller General of The United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of receipts and payments is free of material misstatement.

Compliance with laws, regulations, contracts, grants and binding policies and procedures, applicable to Save The Children Federation is the responsibility of Save The Children Federation management. As part of our audit, we performed tests of Save The Children Federation compliance with certain provisions of laws, regulations, contracts, grants and binding policies and procedures. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the statement of receipts and payments are free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Our testing of transactions and records disclosed instances of non compliance with those laws and regulations. All instances of non-compliance that we found are identified in the schedule of questioned costs under audit finding number 1 on pages 8 to 10, the financial effects of which have not been corrected in the statement of receipts and payments for Grant no. 86-2 granted to and as administered by Save The Children Federation.

Except as described in the paragraph above, the results of our tests of compliance indicated that with respect to the items tested and in respect of Grant no. 86-2, Save the Children Federation complied, in all material aspects, with the provisions referred to in the second paragraph of this report.

(Continued)



AUDIT OF
PRIVATE VOLUNTARY ORGANISATION CO-FINANCING II
GRANT NO. 86 - 2
SAVE THE CHILDREN FEDERATION
INDONESIA

COMPLIANCE WITH GRANT AGREEMENT, AND APPLICABLE AND LAWS
REGULATIONS
INDEPENDENT AUDITORS REPORT (Continued)

With respect to items not tested in respect of Grant no. 86 - 2 nothing came to our attention that caused us to believe that Save The Children Federation had not complied, in all material aspects, with those provisions.

This report is intended for the information of the audit committee, management, and others within the Save the Children Federation and United States Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.

JAKARTA,
15 August, 1991



Indonesia Field Office,
Jakarta Program

Jl. Kartanegara No. 60
Kebayoran Baru
Jakarta 12130, Indonesia
Phone : 772936

May 3, 1991
SCF/J/V/302/91

Ms. Patricia Tanuseputra
Assistant Manager
Price Waterhouse
Ficorinvest Building
Jl. H.R. Rasuna Said Kav. C-18
Kuningan,
Jakarta Selatan 12950.

Dear Patricia:

Subject: Co-Fi Grant #86-2
Audit Report

As discussed during the exit meeting held in Save the Children's office on April 30, 1991, I have drafted our final comments concerning the audit findings, outlined in your draft report. The information provided within this letter in respect to these findings covers our "management comments" for each audit finding. These comments are presented by individual audit finding.

A. Audit Finding No. 1 - Reconciliation of Estimated and Actual Expenditures

Management Comment: Save the Children recognizes the need and responsibility for reconciling the estimated and actual expenditures as noted in the audit report. We will proceed with the necessary steps for completing this reconciliation, prior to the closure of the grant. This will be done in consultation with the USAID/Indonesia Mission. Starting with March 1991 no further reporting of estimated H.O. charges will occur under this grant. For any future Co-Fi grants only actual expenditures will be reported.

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B. Audit Finding No. 2 - Documentation/Jakarta Office

Management Comment: Save the Children recognizes the need and responsibility to retain important grant documents on file in its office, as outlined in OMB Circular A-110. Improvements in our internal filing system since 1989 have prevented further misplacement of grant documents. We have obtained copies of these three Semi-Annual Progress Reports from USAID/Indonesia, in order to complete our report files. We intend to fully comply with the regulation on documentation for any future grant.

C. Audit Finding NO. 3 - Bank Reconciliation/Jakarta Office

Management Comment: As part of the review and submission process of SCF's monthly financial reports, bank reconciliations are approved. Signed copies of all bank reconciliations are sent to SCF Headquarters, with unsigned copies retained in the Jakarta Office file. The audit recommendation is reasonable and signed copies are now being retained in our files, starting with March 1991.

D. Audit Finding No. 4 - Documentation Cancellation/Jakarta

Management Comment: Save the Children recognizes the importance of documentation cancellation and will make the necessary improvements to ensure that this occurs as a normal procedure in the West Java Office. A memo notifying the West Java Accountant outlining the need to cancel vouchers and supporting documentation has been sent to the West Java Office. This will be followed by a formal visit to the West Java Office by the SCF Finance Officer for follow-up and review with the West Java Accountant.

E. Audit Finding No. 5 - Insurance of Fixed Assets

Management Comment: Save the Children recognizes the need to insure assets and has a formal set of policies and plans to cover its organizational needs. In relation to this audit finding, Save the Children's "Insurance Manual for Overseas Operations" notes that SCF self-insures physical damage and losses to its vehicles. A photocopy of the policy relevant to this

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specific audit finding has been given to Price Waterhouse. Please note that we followed Save the Children's insurance policy and met the terms and responsibility under our self-insurance scheme. The agency substituted an equivalent asset paid with non-federal funds to ensure that program operations were not hindered by the loss of the grant funded motorcycle.

F. Audit Finding No. 6 - Supporting Documentation

Management Comment: Save the Children recognizes the validity of this recommendation. While improvement in this area has been noted since mid-1989, the organization of support documentation prior to this was a weak point. The agency will continue to improve in the maintenance of supporting documentation as recommended.

G. Audit Finding No. 7 - Authorized Signatories

Management Comment: Save the Children recognizes the need for adequate internal controls. In respect to the dual authorization of the Country Representative and his wife on Co-Fi Grant Bank Accounts, Save the Children has formally approved this and copies of the authorization letters have been to Price Waterhouse. However, in recognition that there is the potential for a possible conflict of interest, the Country Representative will request Save the Children's Headquarters to issue a formal letter to its bank noting an amendment to the signatory status, stating that they may not jointly sign a check.

H. Audit Finding No. 8 - Questioned Costs

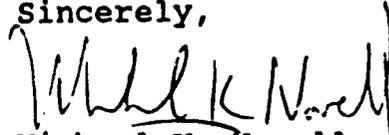
Management Comment: Save the Children recognizes the need for reconciling the differences between actual and estimated costs as noted under points 1, 2, and 5. The resolution of these points is linked to the management comments under Audit Finding No. 1. In regards to point 3: Save the Children's Finance Office will review the Jakarta ledger and subledger to determine which expense figure is correct and will make the appropriate adjustment in Financial Status Report for May 1991.

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Lastly in relation to point 4 on the travel expenses (\$514.43) Save the Children will credit (reduce) the travel expense line item on the Financial Status Report for May in order to reduce the expenditures noted and adjust for this finding.

Please feel free to contact me, if you have any further need.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael K. Novell". The signature is written in a cursive style with a large initial "M".

Michael K. Novell
Country Representative

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