

PD-ARD-662

**Regional Inspector General for Audit  
Tegucigalpa, Honduras**

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**Audit of USAID/Nicaragua's Primary  
Health Care and Supplemental Food Program  
Managed by the Adventist Development  
and Relief Agency  
April 20, 1990 to April 25, 1991**

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**Audit Report No. 1-524-92-19-N  
January 17, 1992**



**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

**Regional Inspector General for Audit  
Tegucigalpa, Honduras**

**Audit of USAID/Nicaragua's Primary  
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**AGENCY FOR INTERNATIONAL DEVELOPMENT**

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OFFICE OF THE REGIONAL INSPECTOR GENERAL  
**AMERICAN EMBASSY**  
TEGUCIGALPA - HONDURAS

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January 17, 1992

**MEMORANDUM**

TO: D/USAID/Nicaragua, Janet Ballantyne

FROM: RIG/A/T Acting, Lou Mundy 

SUBJECT: Audit of USAID/Nicaragua's Primary Health Care and Supplementary Food Program, Managed by the Adventist Development and Relief Agency, April 20, 1990 to April 25, 1991

This report presents the results of a financial audit of USAID/Nicaragua's Primary Health Care and Supplementary Food Program (Program) managed by the Adventist Development and Relief Agency (ADRA) for the period April 20, 1990 to April 25, 1991. The accounting firm of Price Waterhouse prepared the report which is dated October 30, 1991, but was not received by our Office until December 11, 1991.

On April 20, 1990, A.I.D. and ADRA signed Grant Agreement No. LAC-0304-G-00-0012-00 in order to implement the Program. The specific objective of the Program is to provide assistance to approximately 80,000 beneficiaries (16,000 families), with emphasis on the Nicaraguan rural population, as no less than 75 percent of the assistance is to be targeted for beneficiaries from small towns and villages with little or no access to development resources.

The Grant Agreement approved \$1.6 million in A.I.D. funds for the Program. ADRA's contribution to the Program consists of \$150,000 in clothing plus \$250,000 in medical equipment and supplies. The audit coverage included A.I.D. funds of \$1.3 million provided to ADRA during the audit period.

The objectives of the audit were to determine whether: (1) ADRA's fund accountability statement presents fairly, in all material respects, the financial activities under the Program during the period audited, (2) ADRA's internal control structure was adequate to manage the Program's operations, and (3) ADRA had complied with the terms of the Grant Agreement and applicable laws and regulations. The scope of the audit included an examination of ADRA's

activities and transactions under the Program to the extent considered necessary to issue a report thereon for the period under audit.

Price Waterhouse found that ADRA's fund accountability statement, with the exception of questionable costs of \$32,984, presents fairly, in all material respects, the financial activities under the Program for the period audited. Questionable costs related primarily to interest earned but not credited to the Program and disbursements for which supporting documentation was not available.

Price Waterhouse reported no instances of material weakness with respect to ADRA's internal control structure. However, concerning ADRA's compliance with Grant Agreement terms and applicable laws and regulations, the auditors identified four instances of material noncompliance. The auditors reported that ADRA did not: (1) reconcile its local account balances to those balances reflected on the statement of account received from ADRA International-Washington, (2) have control procedures to assure that disbursements are properly supported and allocable to the Program, (3) withhold from employees' wages or pay the employer share of required Nicaraguan social security contributions, and (4) liquidate cash advances promptly.

The draft report was discussed with ADRA management officials whose comments and additional supporting documentation were considered in this final report. ADRA officials expressed general agreement with the content of the report and stated that questionable costs would be resolved to the satisfaction of USAID/Nicaragua officials.

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/Nicaragua resolve the questionable costs of \$32,984 (\$6,181 questioned and \$26,803 unsupported) identified in the Price Waterhouse audit report dated October 30, 1991, and recover all amounts determined to be unallowable from the Adventist Development and Relief Agency.**

**Recommendation No. 2**

**We recommend that USAID/Nicaragua, in conjunction with the Adventist Development and Relief Agency, develop a plan, including a timetable for implementation, to establish procedures that: (1) reconcile local account balances to those balances reflected by its International Office in Washington, D.C., (2) assure that disbursements are properly supported and**

**allocable to A.I.D. funding, and (3) require the prompt liquidation of cash advances.**

This final audit report is being transmitted to you for your action. Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

**FINANCIAL AUDIT OF THE  
ADVENTIST DEVELOPMENT AND RELIEF AGENCY (ADRA)  
NICARAGUA PROGRAM N°LAC-0304-G-00-0012-00  
FOR THE PERIOD APRIL 20, 1990 TO APRIL 25, 1991**

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## *Price Waterhouse*

October 30, 1991

Mr. Reginald Howard  
Regional Inspector General for  
Audit (RIG/A/T)  
U.S. Agency for International Development  
Tegucigalpa, Honduras, C. A.

Dear Mr. Howard:

This report presents the results of our financial audit of the Adventist Development and Relief Agency (ADRA), USAID/Nicaragua Program N°LAC-0304-G-00-0012-00, for the period April 20, 1990 to April 25, 1991.

### **BACKGROUND**

On April 20, 1990, A.I.D. approved grant agreement N°LAC-0304-G-00-0012 for \$1,600,000 to the Adventist Development and Relief Agency (ADRA). ADRA's general goal is to implement an emergency assistance program which will combine a number of resources to support Nicaragua in its efforts to rebuild the economy and find the path to self-sustaining, equitable economic growth within the framework of a democratic, pluralistic society and an outward-oriented market economy.

ADRA's specific objective for the grant is to provide primary health care (PHC) and supplementary food for approximately 80,000 beneficiaries (16,000 families). The emphasis of the program will be rural with no less than 75 percent of the beneficiaries targeted for small towns and villages with little or no access to development resources.

Title II food commodities will be provided as an additional resource to complement the PHC interventions. This resource will be targeted to the project's most vulnerable beneficiaries, namely pregnant and lactating mothers and children under five with second and third degree malnutrition. Beneficiary selection will be determined by simple growth monitoring methods. ADRA anticipates that approximately three members out of each of the 16,000 families will qualify to benefit from this

resource. Food resources, where possible, will be used to address critical project constraints by 1) serving as a nutrition supplement for high risk family members; and 2) supplementing household food availability.

ADRA's contribution to the program will consist of clothing valued at \$150,000 plus medical equipment and supplies valued at \$250,000. These contributions will be used to enhance the services provided to each community by the community health workers.

### **AUDIT OBJECTIVES**

The general objective of our work was to audit the USAID/Nicaragua Program N°LAC-0304-G-00-0012-00 for the period April 20, 1990 to April 25, 1991.

The specific objectives of our financial audit were to determine whether:

- a. The fund accountability statement for the program activities presents fairly, in all material respects, the situation of the financial support provided by USAID/Nicaragua and managed by ADRA from April 20, 1990 to April 25, 1991, and costs reported as incurred and reimbursed by USAID/Nicaragua during the period were allowable, allocable, and reasonable in accordance with the terms of the agreement and applicable laws and regulations.
- b. The internal control structure of ADRA is adequate to manage the program's operations.
- c. ADRA complied with agreement terms and applicable laws and regulations which may affect the program's goals and incurred costs.

### **SCOPE OF WORK**

To meet stated audit objectives, our work included the following:

#### **a. Preliminary steps -**

Review of the following documents to become familiar with the program:

1. The "Project Paper".
2. The project agreement between USAID/Nicaragua and ADRA.

3. The subagreements between USAID/Nicaragua, ADRA and other institution, as applicable.
4. Contracts and subcontracts with third parties, if any.
5. The budgets, project implementation letters, and written procedures approved by USAID/Nicaragua to manage the program.
6. Office of Management and Budget (OMB) Circular A-122 "Cost Principles for Nonprofit Organizations".
7. OMB Circular A-110 "Grants and Agreements with Institutions of Higher Education, Hospitals and other Non profit organizations".
8. OMB Circular A-133 "Audits of Institutions of Higher Education, Hospitals and Other Nonprofit Organizations".
9. OMB Circular A-123 "Internal Control Systems".
10. Mandatory Standard Provisions for U.S., Non-Governmental Grantees (A.I.D. Handbook N°13).
11. Federal Acquisition Regulations (FAR), which include costs principles and procedures for contracts issued after April 1, 1984.
12. A.I.D. Acquisition Regulations (AIDAR), which provide A.I.D. procedures supplemental to the FAR.
13. All financial and project reports; charts of accounts; organizational charts; accounting system descriptions; procurement policies and procedures; and receipt, warehousing and distribution procedures of materials, as necessary to successfully complete the required work .
14. PL-480 Title II, Regulation 11.

**b. Financial audit of the program's disbursements -**

1. Examine the fund accountability statement for the overall execution of the program from April 20, 1990 through April 25, 1991. Our work included the review of program implementation accomplishments to determine if the costs reported as incurred were in fact allowable, allocable and reasonable under the terms of the agreement.

Although that was not the purpose of our financial audit, we were alert to situations or transactions that would be indicative of fraud, abuse or illegal expenditures or acts.

2. Evaluate ADRA's internal control structure as considered necessary. For this purpose we conducted compliance and substantive tests to determine the extent to which established procedures and controls were functioning as intended and the adequacy of the accounting and information systems, procurement procedures and practices, bank account controls, and controls to assure that charges to the program were proper and adequately documented.

In fulfilling the audit requirements relating to an understanding of the internal control structure and assessing risk, we followed the guidance contained in applicable AICPA Statements on Auditing Standards. Therefore our work included:

- a. Obtaining sufficient understanding of the internal control structure of ADRA to plan the audit and to determine the nature, timing, and extent of other tests; and
  - b. Obtaining sufficient understanding of policies and procedures that pertain to ADRA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement.
3. Evaluate whether ADRA complied with the terms of the agreement and with applicable laws and regulations.

## **RESULTS OF AUDIT**

### **Fund Accountability Statement**

Except for the effects of the matters mentioned in the following paragraph, the fund accountability statement examined by us presents fairly, in all material respects, the cash receipts and disbursements of USAID/NICARAGUA Program N° LAC-0304-G-00-0012-00 for the period April 20, 1990 to April 25, 1991.

As further described in Note 5 to the fund accountability statement, however, disbursements amounting to \$32,984 have been questioned for the reasons explained therein.

### **INTERNAL CONTROL STRUCTURE**

Our evaluation of the internal control structure of ADRA disclosed the following reportable condition:

- Original documents in support of disbursements made by ADRA Washington were lacking.

### **COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS**

Our tests for compliance with agreement terms and applicable laws and regulations disclosed the following:

- The accounting and budgetary control manual used by ADRA International in all its affiliated offices were not used by the local ADRA unit.
- ADRA balances (US\$1,409) were not adequately reconciled with those reflected in a statement of account (US\$18,237) received from ADRA International-Washington.
- Certain transactions were considered not related or allocable to the program.
- ADRA failed to withhold from the employees' salaries and to pay employer contributions to the Nicaraguan Social Security Institute (NSSI).
- Advances made to vendors, employees and ADRA International (Washington) were pending liquidation as of April 25, 1991.

### **MANAGEMENT COMMENTS**

A draft of our report was discussed with ADRA's management on September 26, 1991 who generally agreed with audit findings and content of this report, except for certain questionable costs amounting to US\$113,427 for which supporting documents subsequently were provided to the auditors. Management also represented that questionable costs disclosed in the final audit report amounting to US\$32,984 will be resolved afterwards at the satisfaction of the USAID Mission to Nicaragua.

*Price Waterhouse*

## *Price Waterhouse*

**ADVENTIST DEVELOPMENT AND RELIEF AGENCY (ADRA)  
USAID/NICARAGUA PROGRAM N°LAC-0304-G-00-0012-00  
FOR THE PERIOD APRIL 20, 1990 TO APRIL 25, 1991**

**FUND ACCOUNTABILITY STATEMENT**

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying fund accountability statement of Adventist Development and Relief Agency (ADRA) for the USAID/Nicaragua Program N°LAC-0304-G-00-0012-00 for the period April 20, 1990 to April 25, 1991. This fund accountability statement is the responsibility of the Adventist Development and Relief Agency (ADRA). Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall fund accountability presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the fund accountability statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the fund accountability statement of Adventist Development and Relief Agency (ADRA) referred to above fairly presents the cash receipts and the disbursements of the USAID/Nicaragua Program N°LAC-0304-G-00-0012-00 for the period

April 20, 1990 to April 25, 1991 on the basis of accounting described in Note 2. Regarding Program execution for USAID/Nicaragua purposes, however, our audit tests disclosed costs for US\$32,984 which have been questioned for the reasons explained in Note 4.

*Price Waterhouse*

July 28, 1991

**ADVENTIST DEVELOPMENT AND RELIEF AGENCY (ADRA)  
USAID/NICARAGUA PROGRAM N°LAC-0304-G-00-0012-00**

**FUND ACCOUNTABILITY STATEMENT  
APRIL 20, 1990 TO APRIL 25, 1991  
(expressed in U. S. Dollars)**

	Obligated Budget (Unaudited)	Budget Execution	Questionable costs (Note 4)
<b>REVENUES -</b>			
Funds for the program	<u>US\$1,600,000</u>	<u>US\$1,295,077</u>	
<b>PROGRAM COSTS -</b>			
Direct costs:			
Executive personnel	165,000	107,500	
Other personnel	126,108	145,771	
Accident insurance	-	1,348	
Travel and per diems	21,600	15,583	US\$ 114
Foreign travel	35,000	26,219	
Communications	14,145	5,824	
Office rent	21,588	25,118	
Storage rent	8,400	4,567	
Ship-handling	306,050	106,007	
Technical travel	49,000	12,786	
Utilities	7,440	705	
Vehicle operation	<u>142,000</u>	<u>65,749</u>	
	<u>896,331</u>	<u>517,177</u>	<u>114</u>
Procurement:			
Communications equip- ment	30,000	14,805	
Medical equipment supplies	95,500	78,293	19,878
Office equipment	42,000	45,822	
Fire insurance		562	
Office supplies	19,100	11,313	
Storage equipment	5,508	9,652	
Vehicles	235,500	209,736	
Services	<u>43,800</u>	<u>55,412</u>	<u>6,925</u>
	<u>471,408</u>	<u>425,595</u>	<u>26,803</u>
Indirect costs	<u>232,261</u>	<u>189,627</u>	
Total program costs	<u>US\$1,600,000</u>	<u>1,132,399</u>	
Excess of revenues over disbursements		162,678	
Other transactions (Note 3)		<u>6,331</u>	<u>6,067</u>
Cash on hand		<u>US\$ 169,009</u>	<u>US\$32,984</u>

**ADVENTIST DEVELOPMENT AND RELIEF AGENCY (ADRA)  
USAID/NICARAGUA PROGRAM N°LAC-0304-G-00-0012-00**

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT  
FOR THE PERIOD APRIL 20, 1990 TO APRIL 25, 1991**

**NOTE 1 - BACKGROUND:**

On April 20, 1990, A.I.D. approved grant agreement N°LAC-0304-G-00-0012-00 for \$1,600,000 to the Adventist Development and Relief Agency (ADRA). ADRA'S general goal is to implement an emergency assistance program which will combine a number of resources to support Nicaragua in its efforts to rebuild the economy and find the path to self-sustaining, equitable economic growth within the framework of a democratic, pluralistic society and an outward-oriented market economy.

ADRA's specific objective for the grant is to provide primary health care (PHC) and supplementary food for approximately 80,000 beneficiaries (16,000 families). The emphasis of the program will be rural with no less than 75 percent of beneficiaries (60,000) targeted for small towns and villages with little or no access to development resources.

Title II food commodities will be provided as an additional resource to complement the PHC interventions. This resource will be targeted to the project's most vulnerable beneficiaries, namely pregnant and lactating mothers and children under five with second and third degree malnutrition. Beneficiary selection will be determined by simple growth monitoring methods. ADRA anticipates that approximately three members out of each of the 16,000 families will qualify to benefit from this resource. Food resources, where possible, will be used to address critical project constraints by 1) serving as a nutrition supplement for high risk family members; and 2) supplementing household food availability.

ADRA's contribution will consist of clothing valued at \$150,000 plus medical equipment and supplies valued at \$250,000. These contributions will be used to enhance the services provided to each community by the community health workers.

**NOTE 2 - BASIS OF ACCOUNTING:**

The fund accountability statement has been prepared on the cash basis of accounting. Consequently, funding provided is recognized when received rather than when earned and expenditures are recognized when paid rather than when the obligations are incurred.

**NOTE 3 - RATE OF EXCHANGE AND EXCHANGE RESTRICTIONS:**

According to the exchange control law of September 9, 1978 all foreign currency acquired must be reported to the Central Bank of Nicaragua and all remittances above must have the approval of the Central Bank.

On May 3, 1990 the Central Bank of Nicaragua (CBN) established a new monetary unit (Cordoba Oro) equivalent to the U.S. dollar; subsequently, in March 3, 1991 a new parity of the Cordoba Oro was established at C\$5.00 per US\$1.00.

The BCN has allowed the operation of a free market for currency exchange, provided transactions in this market are handled by authorized agents (foreign currency bureaus).

**NOTE 4 - OTHER TRANSACTIONS:**

A summary of other transactions executed under the Program are as follows:

Interest earned	US\$ 6,067
Loan from other PL - 480, Title II Program Managed by ADRA	13,631
Account payable to Adventist World Services for purchases and other charges	<u>5,920</u>
	<u>25,618</u>
Less - advances pending of liquidation:	
Adventist International Division	1,277
ADRA International- Washington	1,409
Charges to employees	1,493
Vendors	14,015
Others	<u>1,093</u>
	<u>19,287</u>
Net balance	<u>US\$ 6,331</u>

**NOTE 5 - QUESTIONABLE COSTS:**

The following disbursements pertaining to Program N°LAC-0304-G-00-0012-00 represent incurred costs that are questionable for the reasons explained:

	<u>Questioned</u>	<u>Unsupported</u>	<u>Total</u>
Other transactions -			
Interest earned	US\$6,067 (1)		US\$ 6,067
Travel and perdiems	114 (2)		114
Medical equipment and supplies	-	US\$19,878 (3)	19,878
Services	_____	_____6,925 (4)	_____6,925
	<u>US\$6,181</u>	<u>US\$26,803</u>	<u>US\$32,984</u>

### REASONS FOR QUESTIONING

#### Reference

- (1) Interest earned not reimbursed to A.I.D.
- (2) Disbursement not allocable to the Program (reimbursed by ADRA subsequently).
- (3) Disbursement without original supporting documentation.
- (4) Disbursement without any support.

## *Price Waterhouse*

**ADVENTIST DEVELOPMENT AND RELIEF AGENCY (ADRA)  
USAID/NICARAGUA PROGRAM N°LAC-0304-G-00-012-00  
FOR THE PERIOD APRIL 20, 1990 TO APRIL 25, 1991**

**INTERNAL CONTROL STRUCTURE**

**INDEPENDENT AUDITOR'S REPORT**

We have audited the fund accountability statement of Adventist Development and Relief Agency (ADRA) of the USAID/Nicaragua Program N°LAC-0304-G-00-0012-00 for the period April 20, 1990 to April 25, 1991, and have issued our report thereon dated July 28, 1991.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

In planning and performing our audit of the fund accountability statement of the above indicated Program for the period April 20, 1990 to April 25, 1991, we considered the internal control structure applied to the Program in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of ADRA 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 internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but no 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 the fund accountability statement in accordance with the cash basis of accounting. 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 the purpose of this report, we have grouped the significant internal control structure policies and procedures in the accounting and budgetary control areas.

For the internal control structure groupings listed above, we obtained an understanding of the design of relevant policies and procedures and whether they had been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under the 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 consistent with the assertions of management in the fund accountability statement. The reportable conditions noted is described under finding No. 1 in the following pages.

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 fund accountability statement being audited 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, however, that the reportable condition described as finding No. 1 in the following page is not a material weakness.

This report is intended for the information of the ADRA 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 Regional Inspector General, is a matter of public record.

*Steve Waterhouse*

July 28, 1991

**ADVENTIST DEVELOPMENT AND RELIEF AGENCY (ADRA)  
USAID/NICARAGUA PROGRAM NºLAC-0304-G-00-0012-00  
FOR THE PERIOD APRIL 20, 1990 TO APRIL 25, 1991**

**REPORT ON INTERNAL CONTROL STRUCTURE**

**FINDINGS**

**1. ORIGINAL DOCUMENTS IN SUPPORT OF DISBURSEMENTS MADE BY ADRA WASHINGTON WERE LACKING.**

**Condition:**

Our review of medical equipment and supplies revealed disbursements for US\$19,878 which were not supported by original documents from ADRA Washington and other transactions in the aggregate of US\$6,925 that also lacked supporting documentation.

**Criteria:**

ADRA is required to support with original documentation all charges made to the program.

**Cause:**

It is the policy of ADRA Washington that when purchases are made for several offices the original documentation is maintained in the centralized files of the Washington office.

**Effect:**

Transactions not supported with original documentation may be disallowed by A.I.D.

**Recommendation:**

ADRA should obtain appropriate original documentation in support of program's disbursements made with A.I.D. supplied funds.

\* \* \*

## *Price Waterhouse*

**ADVENTIST DEVELOPMENT AND RELIEF AGENCY (ADRA)  
USAID/NICARAGUA PROGRAM N°LAC-0304-G-00-0012-00  
FOR THE PERIOD APRIL 20, 1990 TO APRIL 25, 1991**

**COMPLIANCE WITH AGREEMENT TERMS AND  
APPLICABLE LAWS AND REGULATIONS**

**INDEPENDENT AUDITOR'S REPORT**

We have audited the fund accountability statement of Adventist Development and Relief Agency (ADRA) for the USAID/NICARAGUA Program N°LAC-0304-G-00-0012-00 for the period April 20, 1990 to April 25, 1991, and have issued our report thereon dated July 28, 1991.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

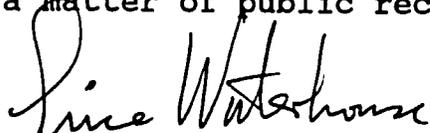
Compliance with laws, regulations, contract or grant applicable to the Adventist Development and Relief Agency (ADRA) is the responsibility of the management of ADRA in Nicaragua. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of the ADRA compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our tests of compliance disclosed the material instances of noncompliance disclosed in findings 1 to 4 of this section.

We considered these material instances of noncompliance in forming our opinion on whether the fund accountability statement of Adventist Development and Relief Agency (ADRA) for the USAID/Nicaragua Program No. LAC-0304-G-00-0012-00 for the period April 20, 1990 to April 25, 1991 is presented fairly, in all material respects, in conformity with the basis of accounting used, and this report does not affect our report dated July 28, 1991.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, ADRA complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that ADRA had not complied, in all material respects, with those provisions.

This report is intended for the information of ADRA 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 Regional Inspector General, is a matter of public record.

A handwritten signature in cursive script that reads "Gene Waterhouse". The signature is written in dark ink and is positioned above the date.

July 28, 1991

**ADVENTIST DEVELOPMENT AND RELIEF AGENCY (ADRA)  
USAID/NICARAGUA PROGRAM NºLAC-0304-G-00-0012-00  
FOR THE PERIOD APRIL 20, 1990 TO APRIL 25, 1991**

**REPORT ON COMPLIANCE WITH AGREEMENT TERMS  
AND APPLICABLE LAWS AND REGULATIONS**

**FINDINGS**

**1. ADRA LACKS AN ADEQUATE ACCOUNTING SYSTEM AND APPROPRIATE CONTROL PROCEDURES IN AREAS OF SIGNIFICANCE TO THE PROGRAM.**

**Condition:**

Our evaluation of ADRA accounting system disclosed the following conditions:

- The accounting and budgetary control manual used by ADRA International in all its affiliated offices were not used by the local ADRA unit.
- ADRA balances (US\$1,409) were not adequately reconciled with those reflected in a statement of account (US\$18,237) received from ADRA International-Washington.

**Criteria:**

ADRA should comply with numeral 2 of the Accounting, Audit and Records section of A.I.D. Mandatory Standard Provision for U.S., Non-Governmental Grantees, which requires maintaining adequate accounting and budgetary control records.

**Cause:**

The importance for using ADRA's International accounting and budgetary controls to support financial reports was overlooked since the reference program is the first experience of ADRA working in Nicaragua under A.I.D. requirements.

**Effect:**

As a result of the conditions mentioned above US\$26,917 were considered questionable costs and balances resulting from other transactions (see Note 3 of the fund accountability statement) were not properly reconciled.

**Recommendation:**

ADRA Nicaragua should obtain from ADRA International the accounting system and control procedures, including appropriate budgetary controls, to support the financial reports submitted to A.I.D. and to reconcile balances and transaction with other entities.

**2. DISBURSEMENTS MADE BY ADRA NOT CONSIDERED ALLOCABLE TO THE PROGRAM.**

**Condition:**

Our review revealed certain transactions not considered related or allocable to the program.

**Criteria:**

A.I.D. mandatory standard provisions for U.S. Non-governmental Grantees and the Grant Agreement describe transaction allocable to the program.

**Cause:**

Disbursements were made considering that such were allocable to the program.

**Effect:**

Disbursements amounting to US\$114 were considered questioned costs.

**Recommendation:**

ADRA should implement control procedures to assure that all disbursements made with A.I.D. grant are properly supported and effectively allocable to the program.

**3. ADRA DID NOT COMPLY WITH MAKING WITHHOLDINGS FROM SALARIES AND PAYMENTS UNDER THE NICARAGUAN SOCIAL SECURITY LAW.**

**Condition:**

ADRA did not withhold from employees or pay its employer contributions required by the Nicaraguan Social Security Institute (NSSI).

**Criteria:**

All entities operating in Nicaragua are required to withhold 4.5% from employees' salaries and to pay its employer contributions of 12.5% to the Nicaraguan Social Security Institute.

**Cause:**

The bookkeeper mistakenly believed that ADRA was exempt from this requirement and overlooked compliance thereon.

**Effect:**

NSSI will require payment, plus interest and fine to be applied on unsettled balances.

**Recommendation:**

ADRA should settle its social security liabilities and make sure Nicaraguan social security regulations are fully complied with from now on.

**4. FUND ADVANCES WERE PENDING LIQUIDATION AS AT APRIL 25, 1991.**

**Condition:**

Advances to vendors, employees and ADRA International (Washington) were pending liquidation as of April 25, 1991.

**Criteria:**

ADRA should require prompt liquidation of all cash advances.

**Cause:**

Lack of timely review and follow-up on advances granted.

**Effect:**

It is possible that certain costs are not reflected in the fund accountability statement when incurred.

**Recommendation:**

ADRA should take appropriate actions to liquidate advances on a timely manner.

\* \* \*

**ADVENTIST DEVELOPMENT AND RELIEF AGENCY (ADRA)  
USAID/NICARAGUA PROGRAM NºLAC-0304-G-00-0012-00  
FOR THE PERIOD APRIL 20, 1990 TO APRIL 25, 1991**

**LIST OF REPORT RECOMMENDATIONS**

**INTERNAL CONTROL STRUCTURE**

**Recommendation 1:**

ADRA should obtain appropriate original documentation in support of program's disbursements made with A.I.D. supplied funds.

**COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE  
LAWS AND REGULATIONS**

**Recommendation 1:**

ADRA Nicaragua should obtain from ADRA International the accounting system and control procedures, including appropriate budgetary controls, to support the financial reports submitted to A.I.D. and to reconcile balances and transaction with other entities.

**Recommendation 2:**

ADRA should implement control procedures to assure that all disbursements made with A.I.D. grant are properly supported and effectively allocable to the program.

**Recommendation 3:**

ADRA should settle its social security liabilities and make sure Nicaraguan social security regulations are fully complied with from now on.

**Recommendation 4:**

ADRA should take appropriate actions to liquidate advances on a timely manner.

\* \* \*

## APPENDIX

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