

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

**Audit of USAID/Dominican Republic's
Health Systems Management Project
Managed by the Secretariat of
Public Health and Social Assistance
February 28, 1984 to October 31, 1990**

**Audit Report No. 1-517-92-21-N
March 6, 1992**



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AGENCY FOR INTERNATIONAL DEVELOPMENT

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March 6, 1992

MEMORANDUM

TO: D/USAID/Dominican Republic, Raymond F. Rifenburg



FROM: RIG/A/T, Reginald Howard

SUBJECT: Audit of USAID/Dominican Republic's Health Systems Management Project, Managed by the Secretariat of Public Health and Social Assistance, February 28, 1984 to October 31, 1990

This report presents the results of a financial audit of USAID/Dominican Republic's Health Systems Management Project (Project), USAID/Dominican Republic Project No. 517-0153, managed by the Secretariat of Public Health and Social Assistance (Secretariat), for the period February 28, 1984 to October 31, 1990. The audit firm of Deloitte & Touche prepared the report dated January 10, 1992.

The purpose of the Project was to increase the quality and quantity of primary health care services delivered by the Secretariat. The Project budget provided for a total of \$3.8 million, of which USAID/Dominican Republic was to provide \$2.8 million in grant funds and the Government of the Dominican Republic \$1.0 million as counterpart contributions. The audit coverage included \$256,054 of A.I.D. funds provided to the Secretariat during the audit period.

The purpose of the audit was to determine whether: (1) the fund accountability statement presents fairly, in all material respects, the Secretariat's financial activities related to the Project for the period audited, (2) the Secretariat's internal control structure was adequate to manage the Project's operations, and (3) the Secretariat had complied with the terms of the Project Agreement and applicable laws and regulations. The scope of the audit included an examination of the Secretariat's activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

Deloitte & Touche found that the Secretariat's fund accountability statement presents fairly, in all material respects, the financial activities under the Project for the period audited.

With respect to the internal control structure, the auditors identified one material weakness concerning inadequate controls over the Project's fixed assets.

In their review of the Secretariat's compliance with agreement terms and applicable laws and regulations, the auditors reported two material instances of noncompliance concerning a shortfall of \$79,618 in required counterpart contributions and unauthorized loans of Project funds for non-Project purposes. There was an outstanding balance of \$1,083 in unauthorized loans as of March 25, 1991, the date of completion of the auditors' fieldwork.

The report was submitted for comment to the Secretariat on September 19, 1991; however, the Secretariat's management did not respond and Deloitte & Touche released the final report to us on January 10, 1992 without management comments.

Since the Project has ended and, according to Mission officials, USAID/Dominican Republic has no existing agreements with the Secretariat, we are not including the auditors' recommendations related to controls over fixed assets or the shortfall in counterpart contributions in the Office of the Inspector General's recommendation follow-up system. However, in considering any future projects with the Secretariat, we strongly recommend that USAID/Dominican Republic management obtain assurance, as a part of the evaluation process, that these problems have been corrected prior to the release of A.I.D. funds to the Secretariat.

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

Recommendation No. 1

We recommend that USAID/Dominican Republic recover from the Secretariat of Public Health and Social Assistance the uncollected balance of \$1,083 representing unauthorized loans made for non-Project activities identified in the Deloitte & Touche audit report dated January 10, 1992.

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 recommendation.

Gómez, Santos & Asociados



Deloitte & Touche

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**AUDIT OF THE
HEALTH SYSTEMS MANAGEMENT PROJECT
USAID/DOMINICAN REPUBLIC PROJECT NO.517-0153
MANAGED BY THE SECRETARIAT OF PUBLIC HEALTH
AND SOCIAL ASSISTANCE (SESPAS)
FOR THE PERIOD FEBRUARY 28, 1984 TO OCTOBER 31, 1990**

AUDIT OF THE
HEALTH SYSTEMS MANAGEMENT PROJECT
USAID/DOMINICAN REPUBLIC PROJECT NO.517-0153
MANAGED BY THE SECRETARIAT OF PUBLIC HEALTH
AND SOCIAL ASSISTANCE (SESPAS)

FOR THE PERIOD FEBRUARY 28, 1984 TO OCTOBER 31, 1990

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January 10, 1992

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 financial audit of the activities of the Health Systems Management Projects. USAID/Dominican Republic project No.517-0153, Managed by the Secretariat of Public Health and Social Assistance (Secretaría de Estado de Salud Pública y Asistencia Social-SESPAS), for the period February 28, 1984 to October 31, 1990.

BACKGROUND

On February 28, 1984 the Government of the Dominican Republic (GODR) and the United States Agency for International Development in Dominican Republic (USAID/Dominican Republic) signed loan and grant agreements to fund the Health Systems Management Project, USAID/Dominican Republic Project No.517-0153, to improve the Secretariat of Public Health and Social Assistance Management Systems and develop the capacity within SESPAS to administer and manage health services.

The loan agreement was subsequent canceled and the grant agreement provided US\$2,769,000. In addition to the grant funds, the Government of the Dominican Republic agreed to contribute an equivalent of US\$1,027,000 in counterpart funds. The project completion date was October 31, 1990.

The goal of this project was to increase the quantity and quality of SESPAS delivered primary health care services. The project had two (2) major components: management systems improvement component, and disease control component.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit were to determine whether:

- A. the fund accountability statement presents fairly the financial situation of the project activities managed by SESPAS from February 28, 1984, to October 31, 1990, and costs reimbursed by USAID/Dominican Republic are allowable, allocable and reasonable in accordance with agreement terms and applicable laws and regulations;
- B. the internal control structure of SESPAS is adequate to manage the project; and
- C. SESPAS complied with agreement terms, project implementation letters, and applicable laws and regulations which may affect the project's goals and incurred costs.

Our audit was performed in accordance with generally accepted auditing standards and the United States Comptroller General: "Government Auditing Standards".

The scope of our work consisted of:

1. Become familiar with the program by reviewing the following documents:
 - the agreements between USAID/Dominican Republic and the GODR related to the project;
 - contracts between SESPAS and third parties;
 - project's financial and progress reports submitted to USAID/Dominican Republic; and
 - budgets, procedures and manuals approved by USAID/Dominican Republic to manage the project.
2. Reviewing and evaluating SESPAS' internal control structure including; : cash receipt and disbursements, procurement, inventories, records keeping, financial information system, and, budgetary controls.
3. Examining the documentation supporting project's receipts and disbursements.
4. Determining whether SESPAS was in compliance with agreement terms and applicable laws and regulations.

During our work we were alert to situations or transactions that could be indicative of fraud, abuse and illegal expenditures and acts.

RESULTS OF AUDIT

Fund Accountability Statement

The fund accountability statement presents fairly the financial situation of the project activities managed by SESPAS from February 28, 1984 to October 31, 1990, and cost reimbursed by USAID/Dominican Republic are allowable, allocable and reasonable in accordance with agreement terms and applicable laws and regulations.

Internal Control Structure:

Our study and evaluation of SESPAS' Internal Control Structure disclosed the following reportable condition which we consider a material weakness: SESPAS did not have controls on project fixed assets purchased with project funds and project fixed assets purchased directly by USAID/Dominican Republic.

Compliance with Agreement Terms and Applicable Laws and Regulations

The results of our tests indicated that:

1. The GODR only provided RD\$300,000 (US\$47,771 as counterpart contribution out of RD\$800,000 (US\$127,389) mentioned in the agreement with USAID/Dominican Republic.
2. SESPAS used RD\$96,243 (US\$15,325) to finance other than project activities the financing was provided as loans and as of October 31, 1990 there was an outstanding uncollected balance of RD\$6,800 (US\$1,083).

MANAGEMENT COMMENTS

This report was submitted for comment to the management of the Secretariat of Public Health and Social Assistance (SESPAS) on September 19, 1991, however we have not received a response from them as of January 10, 1992. This as agreed with RIG/A/T, this report is being issued without the benefit of the implementing entity's management comments and the usual exit conference debriefing.

Deloitte & Touche



HEALTH SYSTEMS MANAGEMENT PROJECT
USAID/DOMINICAN REPUBLIC PROJECT NO. 517-0153
ACTIVITIES MANAGED BY THE SECRETARIAT OF PUBLIC HEALTH
AND SOCIAL ASSISTANCE (SESPAS)

FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FEBRUARY 28, 1984 TO OCTOBER 31, 1990

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying fund accountability statement of the Health Systems Management Project, USAID/Dominican Republic Project No. 517-0153 managed by the Secretariat of Public Health and Social Assistance (Secretaría de Estado de Salud Pública y Asistencia Social-SESPAS) for the period February 28, 1984 to October 31, 1990. The fund accountability statement is the responsibility of SESPAS. 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 United States Comptroller General's "Government Auditing Standards". These 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the fund accountability statement referred to above presents fairly the funds of the USAID/Dominican Republic Project No. 517-0153, received and disbursed by SESPAS during the period February 28, 1984, to October 31, 1990, in conformity with the basis of accounting described in note 1 to the fund accountability statement.

This report is intended solely for the use of SESPAS 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.

March 25, 1991

Deloitte & Touche

HEALTH SYSTEMS MANAGEMENT PROJECT

 USAID/DOMINICAN REPUBLIC PROJECT NO.517-0153

 ACTIVITIES MANAGED BY THE SECRETARIAT OF PUBLIC HEALTH

 AND SOCIAL ASSISTANCE (SESPAS)

 FUND ACCOUNTABILITY STATEMENT

 FOR THE PERIOD FEBRUARY 28, 1984 TO OCTOBER 31, 1990

 (Expressed in Dominican Republic pesos-Note E)

RECEIPTS

From USAID/Dominican Republic	RD\$ 1,543,431 -----
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DISBURSEMENTS: (Notes B and C)

Skills training	607,287
Desease control	59,402
Equipment and maintenance	230,053
Evaluation/audit	67,915
Project management	125,279
Start-up costs	446,856

Accounts receivable and payable-Net (Note D)	1,536,792 6,547 -----
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1,543,339

CASH BALANCE AS OF OCTOBER 31, 1990	RD\$ 92 =====
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See notes to the fund accountability statement

HEALTH SYSTEMS MANAGEMENT PROJECT
USAID/DOMINICAN REPUBLIC PROJECT NO.517-0153
ACTIVITIES MANAGED BY THE SECRETARIAT OF PUBLIC HEALTH
AND SOCIAL ASSISTANCE (SESPAS)

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD FEBRUARY 28, 1984 TO OCTOBER 31, 1990

NOTE A. BACKGROUND AND OBJECTIVES OF THE IMPLEMENTING UNIT

The Secretariat of Public Health and Social Assistance (SESPAS) is a Centralized Government Institution created on October 13, 1919 with the objective to protect, promote and offer health services.

SESPAS is the implementing unit of the Health Systems' Management Project, USAID/Dominican Republic Project No.517-0153.

NOTE B. ACCOUNTING POLICIES

The significant accounting policies adopted by SESPAS in the preparation of the fund accountability statement are the following:

Basis of Presentation:

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.

NOTE C BUDGET

The final revised budget for the life of the project, after amendments was the following:

	US\$ 000		
	AID	GODR	TOTAL
MANAGEMENT SYSTEM IMPROVEMENT, COMPONENT			
Technical assistance	1,826	219	2,045
Management intervention	--	20	20
Skills training	270	262	532
Participant training	4	1	5
Equipment and maintenance	234	162	396
Start-up costs	60	67	127
DISEASE CONTROL COMPONENT	230	282	512
Evaluation/Audit	45	9	54
Project Management	100	5	105
TOTAL	2,769	1,027	3,796

To initiate project activities USAID/Dominican Republic provided an advance of US\$ 256,054 which was used as a revolving fund by SESPAS.

NOTE D ACCOUNTS RECEIVABLE

Project Management made loans to other projects using USAID/Dominican Republic funds as follows:

Total loans	RD\$96,243
Loan collected	89,443
Receivable at project completion date	6,800
Less accounts payable	253
NET	RD\$ 6,547

NOTE E- RATE OF EXCHANGE

Figures in fund accountability statement are expressed in RD\$ pesos. During project execution the official rate of exchange was as follows:

Date

Year	1984	RD\$1.00		
March	1985	3.33	=	1.00
June	1985	3.13	=	1.00
August	1985	2.98	=	1.00
September	1985	2.98	=	1.00
October	1985	2.97	=	1.00
December	1985	2.98	=	1.00
March	1986	2.74	=	1.00
April	1986	2.79	=	1.00
July	1986	2.76	=	1.00
September	1986	2.82	=	1.00
November	1986	3.04	=	1.00
December	1986	3.05	=	1.00
February	1987	3.04	=	1.00
April	1987	3.14	=	1.00
May	1987	3.24	=	1.00
July	1987	3.68	=	1.00
January	1988	4.92	=	1.00
May	1988	6.28	=	1.00



HEALTH SYSTEMS MANAGEMENT PROJECT
USAID/DOMINICAN REPUBLIC PROJECT NO. 517-0153
ACTIVITIES MANAGED BY THE SECRETARIAT OF PUBLIC HEALTH
AND SOCIAL ASSISTANCE (SESPAS)

REPORT ON INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the Health Systems' Management Project, USAID/Dominican Republic project No.517-0153, managed by the Secretariat of Public Health and Social Assistance (Secretaría de Estado de Salud Pública y Asistencia Social-SESPAS) for the period February 28, 1984, to October 31, 1990, and have issued our report thereon dated March 25 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. 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 Health Systems Management Project, USAID/Dominican Republic Project No.517-0153, activities managed by the Secretariat of Public Health and Social Assistance (SESPAS) for the period February 28, 1984 to October 31, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the project fund accountability statement and not to provide assurance on the internal control structure of SESPAS taken as a whole.

The management of SESPAS 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 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 the fund accountability statement 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 the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories: 1) accounting system; 2) cash receipts; 3) cash disbursement 4) procurement, 5) inventories, 6) fixed assets; and 7) financial reporting.

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, 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 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 internal control structure that, in our judgment, could adversely affect the SESPAS' ability to record, process, summarize and report financial data consistent with the assertions of SESPAS management in the fund accountability statement.

The reportable condition noted was the lack of control on project fixed assets purchased with project funds and project fixed assets purchased directly by USAID/Dominican Republic.

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 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. 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 condition described above is a material weakness.

This report is intended solely for the use of SESPAS 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.

Attaitte & Touche

March 25, 1991

HEALTH SYSTEMS MANAGEMENT PROJECT
USAID/DOMINICAN REPUBLIC PROJECT NO. 517-0153
MANAGED BY THE SECRETARIAT OF PUBLIC HEALTH AND SOCIAL ASSISTANCE
(SESPAS)

REPORT ON INTERNAL CONTROL STRUCTURE

FINDINGS

1. There Were No Adequate Records and Control Over Equipment Purchased Directly by USAID/Dominican Republic

Condition:

SESPAS did not maintain adequate records or controls over equipment and other assets paid for with project funds and fixed assets purchased directly by USAID/Dominican Republic, nor physical counts of the equipment were taken.

Criteria:

The project equipment including direct purchases made by USAID/Dominican Republic, should be adequately controlled through general ledger and subsidiary records, which should be kept current. Physical counts of all project equipment should be taken at least once a year.

Cause:

SESPAS lacked a fixed assets control for equipment purchased with project funding and procured directly by USAID/Dominican Republic to adequately control and record equipment acquired with project funds.

Effect:

It was not possible to establish from the records and files kept by SESPAS the amount, existence and location of the equipment acquired with project funds.

Recommendation:

SESPAS should establish adequate records over equipment purchased with project funding and purchased directly by USAID/Dominican Republic and to perform a complete physical count of all equipment, investigating the final destination of the equipment not found in the physical count to make its accountability possible.



HEALTH SYSTEMS MANAGEMENT PROJECT
USAID/DOMINICAN REPUBLIC PROJECT NO.517-0153
ACTIVITIES MANAGED BY THE SECRETARIAT OF PUBLIC HEALTH
AND SOCIAL ASSISTANCE (SESPAS)

REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the Health Systems' Management Project, USAID/Dominican Republic Project No.517-0153, activities managed by the Secretariat of Public Health and Social Assistance (Secretaría de Estado de Salud Pública y Asistencia Social-SESPAS) for the period February 24, 1984, to October 31 1990, and have issued our report thereon dated March 25, 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. 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, and agreement terms applicable to the project is the responsibility of SESPAS management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of SESPAS compliance with certain provisions of laws, regulations, and agreement terms. 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, and agreements 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 material instances of noncompliance, described in Findings 1 and 2, in the following pages.

We considered these material instances of noncompliance in forming our opinion on whether the project's fund accountability statement for the period February 28, 1984 to October 31, 1990 is presented fairly, in all material respects, and this report does not affect our report dated March 25, 1991 on that fund accountability statement.

Except as described above, the results of our tests of compliance indicate that, with respect to items tested, SESPAS 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 SESPAS had not complied, in all material respects, with those provisions.

This report is intended solely for the use of SESPAS 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.

Robert E. Towse

March 25 1991

HEALTH SYSTEMS' MANAGEMENT PROJECT
USAID/DOMINICAN REPUBLIC PROJECT NO. 517-0153
ACTIVITIES MANAGED BY THE SECRETARIAT OF PUBLIC HEALTH
AND SOCIAL ASSISTANCE (SESPAS)

REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

FINDINGS

1. Counterpart Funds Were Not Provided According To the Agreement

Condition:

The amount of the counterpart funds provided by the government of the Dominican Republic (GODR) was less than the amount agreed.

The GODR provided for RD\$300,000, while the agreement establishes that the amount to be provided should be RD\$800,000.

Criteria:

To attain the goals, all project funding should be provided on a complete and timely manner. Section 3.2 of the loan agreement for the project establishes that the GODR should contribute no less than US\$800,000, as counterpart funding.

Cause:

GODR did not provide the complete amount agreed.

Effect:

The project was not provided with all the funds needed to attain its goals.

Recommendation:

In future projects with USAID/Dominican Republic, SESPAS should ensure the compliance of the Government with the counterpart funding.

2 Usage Of Project Funds For Other Purposes Than Authorized

Condition:

Project funds were use for funding other projects.

Criteria:

USAID/Dominican Republic funds must be used only for the purposes agreed.

Cause:

SESPAS did not complied with agreement terms related to the using of project fund.

Effect:

Project did not have all funding available for project purposes.

Recommendation:

SESPAS must reimburse USAID/Dominican Republic the project funds amounting to RD\$6,800-(US\$1,083) used for purposes other than project goals.

HEALTH SYSTEMS MANAGEMENT PROJECT
USAID/DOMINICAN REPUBLIC PROJECT NO. 517-0153
ACTIVITIES MANAGED BY THE SECRETARIAT OF PUBLIC HEALTH
AND SOCIAL ASSISTANCE (SESPAS)

LIST OF REPORT RECOMMENDATIONS

INTERNAL CONTROL STRUCTURE:

Recommendation 1:

SESPAS should maintain adequate records over equipment purchased directly by USAID/Dominican Republic and perform a complete physical count of all equipment, investigating the final destination of the equipment not found in the physical count to make its accountability possible.

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS

Recommendation 1:

In future projects with USAID/Dominican Republic SESPAS should ensure the compliance of the government with the counterpart funding.

Recommendation 2:

SESPAS must reimburse USAID Dominican Republic for project funds amounting to RD\$6,800 (US\$1.083) used for purposes other than the project goals.

APPENDIX

REPORT DISTRIBUTION

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