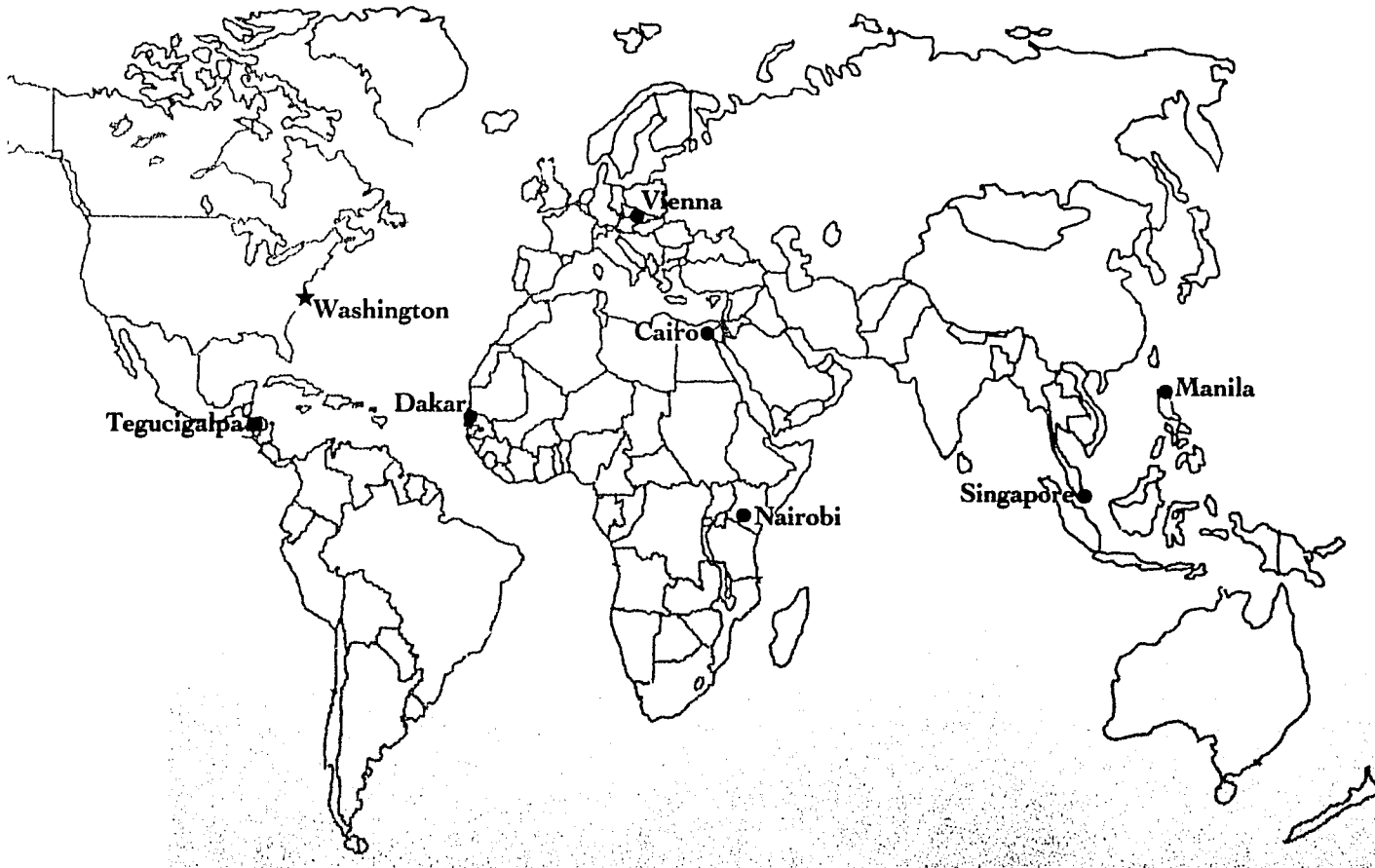
PD-ABE-016

Financial Audits

Audit of
SOCIETY FOR THE CARE OF THE HANDICAPPED
A.I.D. Grant No. ANE-6509-G-SS-8046-00
A.I.D. Grant No. ANE-0159-G-SS-9046-00

Report No. 0-000-92-05-N
May 14, 1992



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INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Agency for International Development
Washington, D.C. 20523

Assistant Inspector General
for Audit

MAY 14 1992

MEMORANDUM FOR AA/NE, Reginald J. Brown

FROM: AIG/A, John P. Competello

SUBJECT: Audit of Society for the Care of the Handicapped Grants Under the Agency's West Bank/Gaza Program

The accounting firm of Price Waterhouse performed a financial-related audit of two grants with the Society for the Care of the Handicapped under A.I.D. West Bank/Gaza programs. Two copies of the report are enclosed for your information.

The Society provides educational and training services to improve living conditions of Palestinians living in the West Bank/Gaza territory. According to the auditors, the importance of this program has increased as a result of the depressed economy in the territory, growing unemployment, inflation, decreased funding from Arab states, the economic and social impact of the ongoing Palestinian Intifada (uprising) since late 1987, and the cancellation of Jordan's West Bank/Gaza Development Program in 1988.

The Society received A.I.D. grant awards (ANE-6509-G-SS-8046-00 and ANE-0159-G-SS-9046-00) totaling $1,154,090 during the period of audit. The periods covered by the audit for each of the two grants are noted on page I-5 of the audit report. During these periods, the Society reported that it expended $1,094,091 under the two grants.

This audit being part of an audit of the entire A.I.D. West Bank/Gaza Program was requested by the Agency's former Bureau for Asia, Near East and Europe. This report is the first of six financial-related audit reports to be issued on private voluntary organizations operating in the West Bank/Gaza territory. The Office of Inspector General/Program and System Audits published Audit Report No. 9-000-92-006 (March 18, 1992) on the performance audit of the Program.

The objectives of this audit were to determine whether the Schedules of Financial Assistance were presented fairly in accordance with generally accepted accounting principles, the internal control structure was adequate and the Society had complied with applicable laws, regulations, and contract terms.

Price Waterhouse determined that the Society's Schedules of Financial Assistance were presented fairly in all material respects. Also, the auditors did not identify reportable internal control and compliance weaknesses. We are therefore not making any recommendations.

We appreciate the courtesies and cooperation the Bureau, the A.I.D. Representative in Jerusalem and the U.S. Embassy in Tel Aviv extended the auditors and our staff during the course of this audit.

Audit of the
Society for the Care of the Handicapped

A.I.D. Grant No. ANE-6509-G-SS-8046-00
July 8, 1988 to August 1, 1989

A.I.D. Grant No. ANE-0159-G-SS-9046-00
September 30, 1989 to September 30, 1990

This report is a financial - related audit of the grant activity reported under the Agency for International Development's West Bank/Gaza program.

Audit of the
Society for the Care of the Handicapped

A.I.D. Grant No. ANE-6509-G-SS-8046-00
July 8, 1988 to August 1, 1989

A.I.D. Grant No. ANE-0159-G-SS-9046-00
September 30, 1989 to September 30, 1990

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EXECUTIVE SUMMARY

We have audited the Society for the Care of the Handicapped (Society) grant activity (ANE-6509-G-SS-8046-00 and ANE-0159-G-SS-9046-00) that is a part of the West Bank/Gaza (WB/G) program of the Agency for International Development's Bureau for Europe and Near East. In general, the purpose of these grants was to assist the Society in the improvement and expansion of its services and programs for handicapped children in Gaza. The first grant was operational from July 8, 1988 through August 1, 1989 and was budgeted for approximately $354,000. The second grant covers the period of September 30, 1989 through September 29, 1992 and was budgeted for approximately $800,000. Our audit for this grant covered the period from September 30, 1989 through September 30, 1990.

The field work was conducted in July and August 1991 in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and included such tests of the accounting records as we considered appropriate. As a part of our examination, we obtained an understanding of the internal control structure and performed an assessment of control risk as part of the financial-related audit of the grant activity. Further, we reviewed the Society's compliance with applicable laws and regulations as contained in the grant agreements that have a material effect on the schedules of financial assistance.

The objective of the engagement was to perform a financial-related audit of the Society's WB/G program grant activity. Specific engagement objectives were to determine whether:

- the schedules of financial assistance were presented fairly in accordance with generally accepted accounting principles
- the Society's internal control structure provides reasonable assurance of compliance with federal regulations
- the Society has complied with the applicable laws and regulations that have been included in the provisions of the grant

The scope and methodology for the engagement can be found on page I-5 of the report.

The Society has been successful in administering the two A.I.D. grants because its management has established an internal control structure which has been clearly defined and is actively monitored by management. The Society has been able to function with the many restrictions imposed by the occupying government that include random security checks, curfews, detention and travel restrictions. Through the training of the handicapped children, other children at risk, and their parents, the Society provides quality learning programs to people whom without the Society would have little to hope for in the future.

We were unable to discuss this report with the Society's management during our field visits in July or August. As an alternative procedure to a on-site close-out, the draft report was delivered to the Society and later discussed over the telephone with Dr. Hatem Abu

Ghazaleh, the Society Chairman. Additionally, we discussed our report orally with members of the ENE Bureau and the Office of the Inspector General. We wish to thank the individuals at the Society for the time and patience they devoted to answering questions and gathering documents. We also wish to thank the Society for its cooperation in providing travel logistics for the field engagement team.

I. Introduction

The mission of the Agency for International Development (A.I.D.) is to administer social and economic assistance programs that combine an American tradition of international concern and generosity with the active promotion of America's national interests. A.I.D. assists developing countries to realize their full national potential through the development of open and democratic societies and the dynamism of free markets and individual initiative. A.I.D. assists nations throughout the world to improve the quality of human life and to expand the range of individual opportunities by reducing poverty, ignorance and malnutrition.

A.I.D. meets these objectives through a worldwide network of country missions and offices which develop and implement programs guided by six principles:

- support for free markets and broad-based economic growth
- concern for individuals and the development of their economic and social well-being
- support for democracy
- responsible environmental policies and prudent management of natural resources
- support for lasting solutions to transnational problems
- humanitarian assistance to those who suffer from natural or man-made disasters

A.I.D.'s mission as a foreign affairs agency of the U.S. Government is to translate into action the conviction of our nation that continued American economic and moral leadership is vital to a peaceful and prosperous world.[1]

A. A.I.D.'s Activities in the West Bank and Gaza

The West Bank and Gaza (WB/G) program was initiated by Congress in fiscal year 1975 to demonstrate American concern and to help meet the humanitarian and economic development needs of Palestinians in the occupied territories and to support U.S. efforts to peacefully resolve the Arab-Israeli conflict. The importance of the A.I.D. program has increased as a result of the depressed economy of the WB/G, growing unemployment, inflation, decreased funding from Arab states, the economic and social impact of the ongoing Palestinian Intifada (uprising) since late 1987, and the cancellation of Jordan's WB/G Development Program in July 1988.[2]

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[1] A.I.D. Four Major Initiatives for the 1990's and Mission Statement, December 1990

[2] Congressional Presentation, Fiscal Year 1990, Main Volume (i.e., Introduction)

The WB/G program goals have been defined to:

- develop skills in training, agriculture, rural development and income-generating capabilities
- develop health services including public health
- encourage self-help projects that can build up the physical and social infrastructure
- promote economic growth through facilitating market entry, market access, management and production in the agricultural and manufacturing sectors; stimulating financial market development and community-based income generation
- create a more favorable policy environment for individuals and enterprises
- increase the capacity of public and non-public institutions to support economic activity
- improve social services such as health and education

The following chart illustrates the WB/G program for its 15 years of existence broken down by private voluntary organization, charitable organization, or program. The chart was prepared and included financial information as of July 30,1990.

Organization	Life of the Project	Percentage
Agricultural Cooperative Development International	$9,187,000	6%
American-Mideast Educational and Training Services	32,766,000	21%
American Near East Refugee Aid	24,723,000	15%
Catholic Relief Services	17,822,000	11%
Holy Land Christian Mission	4,394,000	3%
International Executive Service	235,000	.1%
Management Development Program	375,000	.2%
Save the Children Federation	20,888,000	13%
Society for the Care of the Handicapped	3,873,000	2%
Small Projects Fund	592,000	.3%
Sector Studies in Health	412,000	.2%
Project Development and Support	983,000	1%
Food for Peace PL 480 Title II	25,000,000	16%
Jordan West Bank Development	18,500,000	12%
	$159,750,000	100%

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The Assistant Administrator, Bureau for Europe and Near East (AA/ENE), has the monitoring and management responsibilities for the program. However, the program has been implemented without the benefit of A.I.D. day-to-day field supervision and the absence of an A.I.D. office; this function was being performed by the State Department staff in Jerusalem (West Bank) and Tel Aviv (Gaza). To assist AA/ENE, a Working Group was established in 1987 to manage the program. It was the Working Group's responsibility to review proposals submitted by the various PVOs, to determine the merit of each project submitted, and determine whether such a project would be consistent with A.I.D. priorities and U.S. foreign policy concerns. Once approved, A.I.D. would budget funds for the project and the overall coordination of the program was managed from Washington by the Working Group in consideration with the State Department. Field oversight and monitoring of the program was accomplished by staff at the U.S. Consulate General in Jerusalem and the U.S. Embassy in Tel Aviv, with occasional short-term site visits by Working Group staff and project evaluation teams. The Working Group was officially disbanded in 1989, but the need to meet informally and discuss the management of the program persisted and intensified. The field oversight responsibilities remained the same. In September 1991, with the growth and increased visibility of the program and increasing Congressional concern over the lack of A.I.D. representation at the country level, the State Department agreed to the establishment of an "A.I.D. Representative" in Jerusalem in order to monitor and manage the field operations of the programs more closely and effectively.

The "A.I.D. Representative" is responsible for the following:

- planning, designing and implementing the economic assistance in the West Bank; the geographical responsibility of the "A.I.D. Representative" is limited to the West Bank; the U.S. Embassy in Tel Aviv will continue to perform A.I.D. functions in Gaza
- monitoring, evaluating and reporting on the implementation of the economic assistance program
- acting as a liaison official to the U.S. Embassy in Tel Aviv, the PVOs and private sector representatives
- planning and preparing overall program budgets for A.I.D. and Congressional approval
- directing preparation of programmatic documents for A.I.D. review such as Country Strategy Statements
- providing analyses to the Consulate General in Jerusalem, U.S. Embassy in Tel Aviv, and A.I.D. on evolving economic and political conditions in the West Bank relevant to A.I.D.'s programs

As noted above, the "A.I.D. Representative" will act as a liaison official to the U.S. Consulate, and as requested by the U.S. Embassy in Tel Aviv. However, all official relations with the Government of Israel are handled by the U.S. Embassy in Tel Aviv.

B. The West Bank/Gaza Environment

The West Bank is the size of an average U.S. county while Gaza is 28 miles long by 5 miles wide with a population density akin to Hong Kong. The population of the two territories was estimated in 1987 to be 1.7 million, of which the West Bank had 1,068,000 residents and Gaza 633,000. This represents an 83 percent increase in the West Bank and a 62 percent increase in Gaza over the previous census that was taken in 1967. Another important demographic factor is that 46 percent of the West Bank population and 48 percent of Gaza's population are children under the age of 14[3]. These numbers have increased even further due to the influx of large numbers of displaced Palestinians returning home as a result of the Gulf War. The need for the A.I.D. program has never been as great as it is today.

C. The Society for the Care of the Handicapped

The Society for the Care of the Handicapped (Society) was founded by Dr. Hatem Abu Ghazaleh in 1975. The Society employs 280 Gazans and provides services to approximately 3,450 clients in need. Dr. Abu Ghazaleh is actively involved with the operations, management and oversight of all of the Society's activities.

The Society, through its educational and training services, offers both hope and comfort to those persons who would otherwise be without such hope. Operating within Gaza, a territory particularly underserved by donor programs, the Society is the only indigenous Private Voluntary Organization (PVO) operating under a direct A.I.D. grant. [The Society is approved to directly receive A.I.D. funds, and as such, commands high visibility in the local and voluntary communities.] Over the years, the Society has expanded its scope to include training of parents as well as the care of children at risk. As with all PVOs, the Society's overall mission is to improve the living conditions of the Palestinians through various programs funded by A.I.D. and other international relief organizations. The Society has been the recipient of three A.I.D. grants, two of which are covered under this audit (ANE-6509-G-SS-8046-00 and ANE-0159-G-SS-9046-00).

The Society has been successful in ensuring that the two A.I.D. grants are properly recorded and follow the terms of the agreements by establishing clear lines of responsibility in the operation of the grants. We believe that the successful implementation of the grants can be attributed to good business practices in the following areas:

- active management involvement by the Chairman and a defined management control structure
- a defined organization structure

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[3] U.S. Economic Assistance to the West Bank and Gaza: A Positive Contribution to the Palestinian people from the American people, U.S. AID, March 1989.

- written policies and procedures
- a financial management information system
- budgets with a sufficient amount of detail
- a periodic external audit process

D. Objectives

The objective of the engagement was to perform a financial-related audit of the Society's WB/G program grant activity during the period of October 1, 1987 through September 30, 1990. A financial - related audit includes determining (1) whether financial reports and related items, such as elements, accounts or funds are fairly presented, (2) whether financial information is presented in accordance with established or stated criteria and (3) whether the entity has adhered to specific financial compliance requirements.[4] Because the Society's grants did not cover various periods during the three fiscal years, no audit work was performed during these periods. For example, Society's first grant during the audit coverage period did not start until July 8, 1988; therefore, we did not audit any of Society's activity for the period of October 1, 1987 through July 7, 1988. Specific engagement objectives were to determine whether:

- the schedules of financial assistance were presented fairly in accordance with generally accepted accounting principles
- the Society's internal control structure provides reasonable assurance of compliance with federal regulations
- the Society has complied with the applicable laws and regulations that have been included in the provisions of the grant

E. Scope and Methodology

The scope of the audit covered two grants for the periods of July 8, 1988 through August 1, 1989 (ANE-6509-G-SS-8046-00) and September 30, 1989 through September 30, 1990 (ANE-0159-G-SS-9046-00). The budgets were $ 354,365 and $ 799,725, respectively. Because the Society is an indigenous PVO, all the work was performed in Gaza during our field visits in July and August of 1991.

The audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and included such tests of the accounting records as we considered appropriate in the circumstances. As a part of our examination, we obtained and understanding of the internal control structure and performed an assessment of control risk as part of the financial-related audit of the grant activity for the period of our audit. Further, we reviewed the Society's

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[4] Government Auditing Standards by the Comptroller General of the United States 1988 Revision.

compliance with applicable laws and regulations as included in the grant provisions that have a material effect on the schedules of financial assistance.

During the audit, we used sampling techniques to test whether or not the grant activity was properly supported with sufficient documentation and in compliance with grant provisions and to determine the reasonableness of selected disbursements. Generally, the selection of individual transactions or disbursements utilized a judgmental sampling technique that was structured to test large disbursements to maximize the dollar coverage.

The audit coverage obtained for each grant:

Audit Coverage			
Grant Number	Budget	Disbursements	Tested
ANE-6509-G-SS-8046-00	$354,365	$354,365	60%
ANE-0159-G-SS-9046-00	$799,725	$739,726	75%

Selected audit procedures performed throughout the engagement included the following:

- review of the grant agreement, A.I.D. Handbook 13, OMB Circulars A-110 and A-122
- review of prior reports covering the Society's activity
- the determination of a sampling plan
- detail tests of transaction activity for allowability, reasonableness, and allocability
- tests of Society's internal control structure in monitoring, managing and reporting the grant activity
- detail tests for specific compliance with the grant provisions

Throughout the engagement, we held meetings and had discussions with members of Society's management, the A.I.D. Office of the Inspector General in Washington, D.C., several members of the Bureau of Europe and the Near East and several members of the State Department to discuss the status of the audit and any audit concerns arising.

We were unable to discuss this report with the Society's management during our field visits in July or August, and because of the high cost of travel to perform a final close-out an alternative approach was developed. The approach included sending the report to the Society and following up with a conference call to discuss the report with the Society's Chairman.

There is an inherent limitation in the work performed because of the environment in which the Society operates. Specifically, the bulk of the grant activity is paid in hard currency (not by check) and vendors are apprehensive about giving receipts because of the unique political environment in Gaza. As a result, in some situations the Society prepares an internal document similar to a petty cash voucher to support the disbursement. Obviously internal

documents are not as persuasive as are external documents received from a vendor. However, during our testing we noted no discrepancies in our audit of the support that would lead us to believe that we could not rely upon the internal documents.

F. Organization of the Report

Section II presents the Report of Independent Accountants and **Section III** presents the Schedules of Financial Assistance. In **Section IV** is the Report on Internal Controls that describes the work performed as a result of this financial-related audit. **Section V** of this report presents the Report on Compliance with Laws and Regulations.

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Report of Independent Accountants

We have audited the accompanying "Schedules of Financial Assistance" of the Society for the Care of the Handicapped (Society) for the periods July 8, 1988 through August 1, 1989 and September 30, 1989 through September 30, 1990, respectively. These schedules are the responsibility of the Society's management. Our responsibility is to express an opinion on the schedules based on our audit.

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

In our opinion, the schedules referred to above present fairly in all material respects, the Society's letter of credit drawdowns and expenditures for grant numbers ANE-6509-G-55-8046-00 and ANE-0159-G-55-9046-00 for the periods July 8, 1988 through August 1, 1989 and September 30, 1989 through September 30, 1990 in conformity with the requirements of the grants.

As described in Note 2, Basis of Presentation, the accompanying schedules include only letter of credit drawdowns and expenditures and are not intended to present the Society's financial position, results of its operations or changes in its fund balance in accordance with generally accepted accounting principles.

Price Waterhouse

October 4, 1991

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Society for the Care of the Handicapped
Schedule of Financial Assistance
ANE-6509-G-SS-8046-00
July 8, 1988 through August 1, 1989

			Questioned Costs	
	Budget	**Actual**	**Ineligible**	**Unsupported**
REVENUE:				
Advances		$354,365		
EXPENDITURES:				
Salaries & Fringe	$190,682	$229,402		
Travel	71,208	60,192		
Equipment	36,000	37,550		
Consultants	21,000	8,750		
Other Direct Costs	18,600	18,471		
Contingency Costs	16,875			
	$354,365	$354,365	$ - 0 -	$ - 0 -

See accompanying notes to statements.

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Society for the Care of the Handicapped
Schedule of Financial Assistance
ANE-0159-G-SS-9046-00
September 30, 1989 though September 30, 1990

	Budget	Actual	Questioned Costs (Note 5) Ineligible	Questioned Costs (Note 5) Unsupported	
REVENUE:					
Advances		$838,178		$- 0 -	(a)
EXPENDITURES:					
Salaries & Fringe	$185,380	$213,073			
Travel	6,000	6,606			
Consultants	79,500	8,147			
Capital Assets	304,497	335,277			
Research & Evaluation	60,000				
Other Direct Costs	42,938	25,478			
Overhead	121,410	151,145			
	$799,725	$739,726	$ - 0 -	$- 0 -	

See accompanying notes to schedule.

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Note 1 - The Organization

The Society for the Care of the Handicapped (Society) was founded by Dr. Hatem Abu Ghazaleh in 1975 and employs 280 Gazans and provides services to approximately 3,450 clients in need. Dr. Ghazaleh, Chairman, is actively involved with the operations, management and oversight of all of the Society's activities which include:

- the Sun Day Care Center - a special education school with an enrollment in excess of 130 children
- the Mothers Home Care/Early Intervention Program - sends home teachers to in excess of 600 households each week and teaches the mother of the handicapped children to become the teacher of the child. The program is based on the "Portage Model"
- the Homebased Early Intervention Program - teaches mothers of non-handicapped children from birth to four to stimulate and educate the children who are at risk of development delay because of the prevailing adverse environmental conditions of occupation
- the Fahd Lababidi Center for Special Education - is located in the Gaza Beach Refugee Camp within the UNRWA primary school and provides an early intervention program for the mildly handicapped children ages 2-5 years with the objective of sending these children at age six to regular school. This is a pilot program to be built within regular schools of the community
- Vocational Training and Rehabilitation Services - provides agricultural and light industrial training to individuals over 18 years of age
- Teacher Training programs - the Society also has several training programs in conjunction with the above programs which lead to various types of degrees

Note 2 - Basis of Presentation

The schedules are not intended to be a presentation of the Society's financial position, results of its operations or changes in its fund balance in accordance with generally accepted accounting principles. Rather, the schedules present the advances and expenditures reported during the audit period and were prepared in accordance with the financial reporting provisions of the grants.

Note 3 - Purpose of the Grants

ANE-6509-G-SS-8046-00: the purpose of the grant is to assist the Society in the improvement and expansion of its services and programs for handicapped children in Gaza. The project entails the implementation of a Mothers Home Care and Outreach Program which aims to address the needs of handicapped children in Gaza.

ANE-0159-G-SS-9046-00: the purpose of the grant is to assist the Society in the provision of pre-school support to children under four years and their families in the Gaza Strip. This project will benefit from the experience and achievements of an earlier A.I.D.-supported project designed to assist handicapped children in Gaza.

Note 4 - Objectives of the Grants

ANE-6509-G-SS-8046-00: the principal objective of the activity will be the continuation of a cost-effective, innovative strategy for providing educational services to pre-school handicapped children and their families in Gaza. The strategy is presently implemented through a home-based pre-school intervention program, utilizing community members to provide services to families with handicapped children from birth to ten years of age. The program is developed after the U.S.-developed Portage Project and entails the development of a complete program package to include:

- a culturally appropriate curriculum covering early childhood education as well as nutrition, health and hygiene
- a training program for non-professional home teachers with relatively low levels of education and little experience with children
- a work methodology, carried out with a minimum amount of disruption to daily family living patterns
- a systematic evaluation, measuring program results and providing feedback for future modification

ANE-0159-G-SS-9046-00: the objectives of this grant require the Society to provide cost effective home-based educational support services to approximately 1,000 children under four years of age and their families over a three-year period. The project will finance approximately 18 person-months of technical assistance during the three years to assist the Society staff in the design and implementation of an educationally sound and culturally adapted program. The project will be implemented through home-based pre-school interventions by specially trained community teachers. The project consists of the following elements:

- a training program for non-professional home teachers with relatively low levels of education and little experience with children
- an implementation strategy designed to reinforce family living patterns
- an evaluation plan designed to permit project modification during implementation and to measure improvements attributable to project interventions in pre-schoolers and their families

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Note 5 - Questioned Costs

Under the Inspector General Act Amendments of 1988, questioned costs are defined as an all-inclusive term which includes the following types of costs claimed under Federal contracts and grants:

- **Ineligible** - costs which the auditor considers to be potentially unallowable. This category includes amounts for:
  - items that are a violation of a provision of a law, regulation, contract, grant, or document governing the expenditure of funds
  - items which, although not specifically unallowable, are determined to be unreasonable or unnecessary for the intended purpose (waste or abuse)

Based on the work performed the Society did not have any ineligible costs for each of the grants.

- **Unsupported** - costs which the auditor is unable to gather sufficient, competent, or relevant evidence to determine their allowability.

(a) As of September 30, 1990, there was $98,452 advanced to the Society by A.I.D. that had not been used in the operations as allowable costs of the grant. Due to time delays in processing advance requests this does not represent a problem. The Society receives funds from A.I.D. under the "Periodic Advance by Treasury Check" method. Under this method the payment is made by check upon receipt of a request from the Society. This method is used when an advance is justified but the conditions for a "Letter of Credit" cannot be met. As part of the audit, we performed an assessment of the Society's compliance with the "Standards for Financial Management" Section 1L of Handbook 13 - Grants, and found the Society to be in compliance with these requirements. Therefore, no advance amounts have been questioned.

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Report on Internal Controls

We have audited the accompanying "Schedules of Financial Assistance" of the Society for the Care of the Handicapped (Society) for the periods July 8, 1988 through August 1, 1989 and September 30, 1989 through September 30, 1990 and have issued our report thereon dated October 4, 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 Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free of material misstatement and about whether the Society complied with laws and regulations noncompliance which would be material to the grants.

In planning and performing our audit of the schedules of financial assistance of the Society for the audit periods, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the schedules of financial assistance and not to provide assurance on the internal control structure.

The management of the Society 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 the schedules of financial assistance in accordance with the requirements of the Agency for International Development's grant numbers ANE-6509-G-SS-8046-00 and ANE-0159-G-SS-9046-00, and that the grants are managed in compliance with applicable laws and regulations. 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 categories of disbursement and procurement operations and financial reporting. For all the control 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.

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 schedules of financial assistance 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.

This report is intended for the information of the Agency for International Development. However, this report is a matter of public record and its distribution is not limited.

Price Waterhouse

October 4, 1991

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Office of Government Services
1801 K Street, N.W.
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Report on Compliance

We have audited the accompanying "Schedules of Financial Assistance" of the Society for the Care of the Handicapped (Society) for the periods July 8, 1988 through August 1, 1989 and September 30, 1989 through September 30, 1990 and have issued our report thereon dated October 4, 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 Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules of financial assistance are free of material misstatement.

Compliance with laws, regulations, contracts, and grants, applicable to the Society is the responsibility of the Society's management. As part of obtaining reasonable assurance about whether the schedules of financial assistance are free of material misstatement, we performed tests of the Society's compliance with certain provisions of laws, regulations, contracts, and grants. These tests were of compliance with the special and standard provisions as included in the grant agreements (Numbers ANE-6509-G-55-8046-00 and ANE-0159-G-55-9046-00), the applicable sections of A.I.D. Handbook 13 - Grants, and OMB A-122 - Cost Principles for Non-profit Institutions. However, the objective of our audit of the schedules of financial assistance was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that with respect to the items tested, the Society 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 the Society had not complied, in all material respects, with those provisions.

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Price Waterhouse

October 4, 1991

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APPENDIX

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