

**Regional Inspector General for Audit
Singapore**

**AUDIT OF
THE ASIA FOUNDATION
INDONESIA**

**Audit Report No. 5-497-92-15-N
April 24, 1992**



**AUDIT OF
THE ASIA FOUNDATION
INDONESIA**

AUDIT REPORT NO. 5-497-92-15-N

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The auditors found that except for expenditures incurred in the U.S. which were not covered in this audit, The Asia Foundation's Fund Accountability Statements present fairly the receipts and expenditures of the three grants it had with USAID/Indonesia. No material internal control weaknesses were noted and the organization complied, in all material respects, with applicable laws, regulations, and agreement terms.

FINANCIAL INFORMATION CONTAINED IN THIS REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY INFORMATION IS RELEASED TO THE PUBLIC.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

April 24, 1992

MEMORANDUM FOR: Lee Twentyman
Acting Mission Director, USAID/Indonesia

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

SUBJECT: Audit of The Asia Foundation - Indonesia
Audit Report No. 5-497-92-15-N

The accounting firm of Drs. Hadi Sutanto & Rekan, the Price Waterhouse affiliate in Indonesia, performed a financial audit of USAID/Indonesia's three grants with The Asia Foundation (TAF) in Indonesia. Five copies of the audit report are enclosed for your action.

Under the Private Voluntary Organization Co-financing II Project, USAID/Indonesia provided three grants to TAF to support projects designed to strengthen the legal system in Indonesia. These projects relate to: (1) strengthening the legislative, legal, and press institutions in Indonesia; (2) providing information to Indonesians on their country's laws, their legal rights, and their responsibilities; and (3) strengthening the community self-reliance institutions in Eastern Indonesia. The periods covered by the audit for each of the three grants are noted on Page 3 of the report. During these periods, TAF received a total of \$1,767,584 from USAID and expended \$1,694,897 under the grants. This audit only covers the Indonesian operations of TAF, which expended \$1,583,169 of these funds.

The audit objectives were to: (1) determine whether the Fund Accountability Statement of TAF presents fairly the receipts and expenditures under the grant with USAID/Indonesia and whether the expenditures were allocable, allowable, and reasonable; (2) report on TAF's system of internal controls; and (3) report on TAF's compliance with applicable laws, regulations, and agreement terms.

The auditors reported that except for an amount of \$111,728 relating to grant expenditures incurred in the U.S. which were not covered in this audit, TAF's Fund Accountability Statements present fairly the receipts and expenditures of the three grants it had with USAID/Indonesia. No material internal control weaknesses were noted and the organization complied, in all material respects, with applicable laws, regulations, and agreement terms. However, certain non-material internal control weaknesses and non-material instances of noncompliance were noted.

The management of TAF generally agreed with the auditors' findings and recommendations. TAF's comments are set out under each individual finding in the body of the report.

We are making the following recommendations to be included in the Inspector General's recommendation follow-up system.

Recommendation No. 1: We recommend that USAID/Indonesia verify that The Asia Foundation establishes and implements adequate accounting and operational procedures to:

- a. notate all supporting documents upon payment;
- b. prepare written reports on visits to sub-grantees;
- c. obtain and review sub-grantee reports in a timely manner;
- d. review financial reports before submitting them to USAID;
- e. prepare timely bank reconciliations; and
- f. monitor the adequacy of advances received from USAID.

Recommendation No. 2: We recommend that USAID/Indonesia verify that The Asia Foundation establishes and implements adequate procedures to comply with Agreement terms on reporting and remitting interest earned on advances to USAID/Indonesia; determine the amount of interest earned on the three grants, if any; and refund the interest income earned on these grants to USAID/Indonesia.

We appreciate the courtesies and cooperation the Mission and TAF extended to the auditors and our staff during the course of this audit.

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

**AUDIT OF
PRIVATE VOLUNTARY ORGANISATION CO-FINANCING II
GRANTS NO. 0041, 8173 AND 7090
THE ASIA FOUNDATION
INDONESIA**

FEBRUARY 1992

**AUDIT OF
PRIVATE VOLUNTARY ORGANISATION CO-FINANCING II
GRANTS NO. 0041, 8173 AND 7090
THE ASIA FOUNDATION
INDONESIA**

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***Drs. Hadi Sutanto & Rekan
Price Waterhouse***



March 13, 1992

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

Dear Mr Durnil,

This report presents the results of our audit of the Private Voluntary Organisation Co-Financing II Grants No. 0041, 8173 and 7090 granted to and administered by The Asia Foundation (TAF) in Indonesia. The audit of these grants was performed in Indonesia under the Indefinite Quantity Contract (IQC) A.I.D. No. 497-0000-I-00-0072-00.

1.1 Background

- Grant 0041 : Strengthening legislative, legal and press institutions in Indonesia.

A total amount of US\$1,200,000 was granted to TAF for the period beginning March 23, 1990 through September 30, 1991 for the purpose of building upon the grantee's established contacts and extensive programming experience in the fields of legislative, legal and press institutions in Indonesia and involved the active participation of both government agencies and selected non-government groups in its implementation.

JAMES B DURNIL
March 13, 1992



- Grant No. 8173 : Nationwide legal literacy campaign via Indonesian Television.

A total amount US\$114,700 was granted for the period beginning September 26, 1988 through July 31, 1991 for the purpose of providing the population of Indonesia with current information on the laws of the country, as well as their legal rights and responsibilities.

- Grant No. 7090 : Specific support grant to strengthen Lembaga Swadaya Masyarakat - Community Self-Reliance Institutions (LSMs) in Eastern Indonesia.

A total amount US\$971,814 was granted for the period beginning April 30, 1987 through September 30, 1991 for the purpose of providing partial support for The Asia Foundation project to strengthen Indonesian Community Self-Reliance Institutions (Lembaga Swadaya Masyarakat) in Irian Jaya, Sulawesi, Maluku and Nusa Tenggara through staff training and apprenticeships, participatory action research and legal literacy programs, support in publications and exchange of information, and core support grants.

1.2 Scope of Examination

As required by the delivery order and as stipulated in the Statement of Work attached thereto :

- i. the audit was conducted in accordance with generally accepted auditing standards and "Government Auditing Standards" (1988 Revision), except that :
 - o we have not included in our continuing education program specific training in subjects directly related to the government environment and to government auditing as required by "Government Auditing Standards", and
 - o we have not been able to examine supporting documentation for US based costs on Grant No.0041 in the amount of US\$ 111,728 as this documentation is maintained only at TAF headquarters in San Francisco.

MR JAMES B DURNIL
March 13, 1992



- ii. recommendations arising from the audit have been prepared and presented in accordance with the "Guide For Financial Audits Contracted by the United States Agency for International Development".
- iii. The periods subject to audit which vary by grant are as follows :
 - Grant No. 0041 from March 23, 1990 - June 30, 1991.
 - Grant No. 8173 from September 26, 1988 - June 30, 1991.
 - Grant No. 7090 from April 30, 1987 - August 31, 1991.

The audit work was carried out at USAID/ Indonesia and TAF offices in Jakarta.

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

- i. Initial meetings and interviews with the USAID/Indonesia project manager and the TAF country representative.
- ii. An audit of Grants No. 0041, 8173 and 7090 including an examination of funds received and disbursed, record keeping and report preparation.

One sub-grantee (i.e. Yayasan Alpha Omega) under grant No. 7090 has been audited by Drs Hanadi Sudjendro & Rekan Public Accounting Firm (HSR), a member firm of Klynveld Peat Marwick Goerdeler, for the year ended December 31, 1990. As this sub-grantee represents substantial expenditures incurred under the grant (approximately 19% of the total grant) we have reviewed HSR audit work papers and have relied on their unqualified audit report in respect of expenditure to this sub-grantee.

With respect to Grant No. 0041, we did not perform a physical inspection of computers purchased under the Grant due to the confidentiality of the Indonesian parliament and security concerns in the area where the computers are located. This has been confirmed with both the management of TAF and USAID.

MR JAMES B DURNIL
March 13, 1992



However, we were able to apply alternative procedures including checking the purchase to original invoices from the supplier and narrative reports, and checking receiving reports of the respective sub-grantee. Nothing came to our attention as a result of these alternative procedures which should be reported to you.

- iii. Audit field work.
- iv. An audit exit meeting with USAID/Indonesia representative and project manager, and TAF country representative.

The scope of our examination also included designing appropriate audit steps and procedures to provide reasonable assurance of detecting errors, irregularities and transactions or events that could be indicative of fraud and illegal expenditures or acts that could have a direct and material effect on the results of our audit.

United States Government Auditing Standards require that we include in our continuing education program specific training in subjects directly related to the government environment and to government auditing. Our continuing education program has not included such specific training.

1.3 Audit Objectives

- i. To perform a financial audit of TAF Fund Accountability Statements under Grants No. 0041, 8173 and 7090 in accordance with government auditing standards and audit objectives and procedures delineated in the basic IQC contract and the Statement of Work attached to the delivery order.
- ii. To report on the Fund Accountability Statements, the system of internal control and compliance with grant agreements, applicable laws and regulations.
- iii. To report audit findings identified during the audit and provide constructive recommendations for improvement.



1.4 Results of the Audit

i. Fund Accountability Statements

Based on our audit methodology and procedures, we have issued an unqualified opinion in respect of the Fund Accountability Statements for the periods under review for Grant No. 8173 and Grant No. 7090.

A qualified opinion resulting from a scope limitation has been issued for Grant No. 0041. The scope limitation arises as documentation for US based costs in the amount of US\$ 111,728 is maintained at TAF headquarters in San Francisco. We have not audited these amounts as they will be covered in the audits of TAF in the USA under the OMB circular No. 133 process.

The Fund Accountability Statement for Grant No. 0041 includes the amount of these US based costs.

ii. Internal Control System

In planning and performing our audit of the Fund Accountability Statements, we considered TAF's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the statements.

For significant internal control structure categories examined, 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 no matters involving the internal control structure and its operation that we consider to be a material weakness. However, we noted certain other matters involving the internal control structure and its operation. Refer to detail audit findings and recommendations for improvement on pages 15 to 21.

iii. Compliance with Grant Agreements, Applicable Laws and Regulations

MR JAMES B DURNIL
March 13, 1992



Our test of compliance with grant agreement terms, applicable laws and regulations of selected transactions and records of TAF indicated that for the items tested, except for the non compliance issues set out on pages 24 to 29, which were not considered to be material instances of non compliance, TAF complied with these grant agreement terms, applicable laws and regulations for the periods under review.

With respect to transactions and records not tested by us, nothing came to our attention that caused us to believe that TAF has not complied in all material respects, with the grant agreement terms, applicable laws and regulations.

1.5 Status of Prior Audit Reports

No prior audits have been carried out of USAID's grants to TAF.

1.6 Comments on Findings and Recommendation

The management of TAF and USAID/I are in general agreement with our findings and recommendations on internal control matters and compliance issues, the details of which are set out in our report. Steps have already been taken to rectify a number of these items. Management comments are included with each of our audit findings.

1.7 Acknowledgements

We would like to take this opportunity to express our gratitude for the assistance given to us by the RIG/S office, USAID/I and the management and staff of TAF during the course of our audit.

JAKARTA.
March 13, 1991


YENNY NIKS-PA Publik
Drs. Hadi Sutanto & Rekan
Correspondents of Price Waterhouse


Drs Haryanto Sahari - Partner
Akuntan D-2947
Drs Hadi Sutanto & Rekan

Drs. Hadi Sutanto & Rekan
Price Waterhouse



**AUDIT OF
PRIVATE VOLUNTARY ORGANISATION CO-FINANCING II
GRANTS NO. 0041, 8173 AND 7090
THE ASIA FOUNDATION
INDONESIA**

**INDEPENDENT AUDITORS' REPORT
ON FUND ACCOUNTABILITY STATEMENTS**

We have audited the Fund Accountability Statements as set out on pages 9, 10, and 11 of Private Voluntary Organisation Co-Financing II Grants No. 0041, 8173 and 7090 granted to and administered by The Asia Foundation for the 15 month period ended June 30, 1991, the 33 month period ended June 30, 1991 and the 52 month period ended August 31, 1991 respectively. These statements are the responsibility of The Asia Foundation's management. Our responsibility is to express an opinion on these statements based on our audit.

Except as discussed in paragraph three of this report, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall statements presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not examine supporting documentation for US based costs included in the Fund Accountability Statement of Grant No. 0041 amounting to of US\$ 111,728, refer note 2, page 9. This documentation is maintained in the San Francisco headquarters of The Asia Foundation, and as these costs are included in the Fund Accountability Statement of Grant No. 0041, they have been identified and have not been included within the scope of our audit.



In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding US based costs in Grant No. 0041 referred to in paragraph three of this report, the Fund Accountability Statements present fairly in all material respects the receipts and payments of Grants No. 0041, 8173 and 7090 granted to and administered by The Asia Foundation for the 15 month period ended June 30, 1991, the 33 month period ended June 30, 1991, and the 52 month period ended August 31, 1991 respectively, in conformity with generally accepted accounting principles.



Kantor Akuntan Publik
Drs. Hadi Sutanto & Rekan
Correspondents of Price Waterhouse



JAKARTA
October 7, 1991

DRS HARYANTO SAHARI - Partner
Akuntan D-2947
Drs Hadi Sutanto & Rekan

**AUDIT OF
PRIVATE VOLUNTARY ORGANISATION CO-FINANCING II
GRANT NO. 0041
THE ASIA FOUNDATION
INDONESIA**

**FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD MARCH 23, 1990 TO JUNE 30, 1991**

	US\$	Notes
	-----	-----
Receipts :		
Funds received from USAID	759,750	
Payments :		
Total payments	(656,998)	(1) (2)
Funds available	----- 102,752 =====	
Notes :		
(1) Breakdown by category of payment :		
	US\$	

Parliament	164,082	
Legal	114,309	
Journalism	177,844	
Program Management	30,550	
Office Expense	12,468	
Direct Program Cost	49,574	
Indirect Cost	108,171	
	----- 656,998 =====	
(2) Breakdown by location of supporting documentation		
United States of America	111,728	
Republic of Indonesia	545,270	
	----- 656,998 =====	

**AUDIT OF
PRIVATE VOLUNTARY ORGANISATION CO-FINANCING II
GRANT NO. 8173
THE ASIA FOUNDATION
INDONESIA**

**FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD SEPTEMBER 26, 1988 TO JUNE 30, 1991**

	<u>US\$</u>	<u>Notes</u>
	-----	-----
Receipts :		
Funds received from USAID	108,780	
Payments :		
Total payments	(117,449)	(1)
Funds shortfall	(8,669)	
	=====	

Notes :

- (1) Breakdown by category of payment :

	<u>US\$</u>

Production & TV Air Time	44,231
Materials Development	12,694
Salaries & Honorarium	8,812
Advertising	8,190
Office Supplies, Mailing etc.	7,306
Videotapes	1,884
Post Project Evaluation	3,872
Direct Management Cost	8,111
Indirect Cost	22,349

	117,449
	=====

**AUDIT OF
PRIVATE VOLUNTARY ORGANISATION CO-FINANCING II
GRANT NO. 7090
THE ASIA FOUNDATION
INDONESIA**

**FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD APRIL 30, 1987 TO AUGUST 31, 1991**

	<u>US\$</u>	<u>Notes</u>
Receipts :		
Funds received from USAID	899,054	
Payments :		
Total payments	(920,450)	(1)
Funds shortfall	(21,396)	

Notes :

(1) Breakdown by category of payment :

	<u>US\$</u>
LSM Staff Development, Apprenticeship and Development of Local Training Organization	159,782
Participatory Action Research, Community Organizing and Legal Literacy Program	99,750
Publication and Exchange of Information	53,173
Institutional/Core Support Cooperation Development, Entrepreneurship Training, and Small Business Development Projects	139,123
Professional/Technical Services	30,904
Direct Program Service Cost	193,823
Indirect Cost	65,909
Other	174,568
	3,418
	<u>920,450</u>
	<u>=====</u>

Drs. Hadi Sutanto & Rekan
Price Waterhouse



**AUDIT OF
PRIVATE VOLUNTARY ORGANISATION CO-FINANCING II
FINANCIAL GRANTS NO. 0041, 8173 AND 7090
THE ASIA FOUNDATION
INDONESIA**

**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROLS**

We have audited the Fund Accountability Statements as set out on pages 9, 10 and 11 of Private Voluntary Organisation Co-Financing II Grants No. 0041, 8173 and 7090 granted to and administered by The Asia Foundation for the 15 month period ended June 30, 1991, the 33 month period ended June 30, 1991 and the 52 month period ended August 31, 1991 respectively. These statements are the responsibility of The Asia Foundation's management. Our responsibility is to express an opinion on these statements based on our audit.

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 statements are free of material misstatement.

In planning and performing our audit of Grants No. 0041, 8173 and 7090 we considered the internal control structure of The Asia Foundation in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statements and not to provide assurance on the internal control structure.

The management of The Asia Foundation 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.



**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROLS (Continued)**

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 Fund Accountability Statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have categorized the significant internal control structure policies and procedures into the categories of receipts and payments.

For those control categories identified in paragraph seven of this report 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 Fund Accountability Statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.



**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROLS (Continued)**

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of The Asia Foundation and recorded these matters and recommendations for improvement on pages 15 to 21 and 24 to 29. Management's formal response is included therein.

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

KEMAS AKHMAR Publik
Drs. Hadi Sutanto & Rekan
Correspondents of Price Waterhouse



**JAKARTA,
OCTOBER 7, 1991**

**DRS HARYANTO SAHARI - Partner
Akuntan D-2947
Drs Hadi Sutanto & Rekan**

INTERNAL CONTROL

1.0 Audit finding No. 1 - INTERNAL CONTROLS

i. Condition :

During our review we noted the following weaknesses in the internal control structure :

1. Petty cash vouchers and cash vouchers (payment vouchers) were not prenumbered.
2. Payment vouchers and supporting documents (i.e. invoices) attached to cash vouchers were not cancelled after payment was made.
3. There is no written report prepared by the Program Officer of the visits to sub-grantees. We are advised however that regular discussions and meetings are held between the Program Officer and sub-grantees
4. For the major sub-grantees, TAF has not prepared periodic reconciliations between the ledgers and the financial reports sent to USAID as the ledgers were not updated.
5. Certain sub-grantee narrative reports and financial reports have not been carefully reviewed by TAF.
6. Bank reconciliations were not being prepared on a timely basis.
7. Sub-grantee narrative reports are often submitted late and there is no effective procedure to ensure all reports are submitted on a timely basis.
8. Incomplete review procedures to ensure the accuracy and completeness of the Federal Cash Transaction Report. The June 1991 report was understated due to an amount underclaimed by US\$ 8,000.

ii. Criteria :

For an internal control structure to provide management with reasonable assurance that assets are safeguarded against loss, unauthorised use or disposition, and that transactions are authorised and properly recorded, good accounting practise and internal control implementation require that these conditions be addressed.

INTERNAL CONTROL

1.0 Audit finding No. 1 - INTERNAL CONTROLS (Continued)

iii. Cause :

Condition 1. and 2. have arisen as management has not previously considered these procedures to be necessary.

Conditions 3. to 8. have arisen primarily due to staff limitations, compounded by one staff being on maternity leave.

iv. Effect :

1. There is a possibility for double recording of payments and missing vouchers would not be easily detected or traced.
2. There is a possibility for double payments.
3. Management has limited documentary evidence on the results of the project evaluation. Should Program Officers change or a dispute arise at a later date regarding matters discussed previously, limited documentation exists to provide background information on the project or to support TAF's position.
4. The ledgers and financial reports will not be in agreement.
5. This may result in overpayment to sub-grantee. For example refer to Audit Finding No. 1 items 1 and 2.
6. There is a possibility of unidentified reconciling items.
7. Effective monitoring of the sub-grantee is reduced.
8. Federal cash transaction report may not be complete or accurate.

**GRANTS NO. 0041, 8173 AND 7090
THE ASIA FOUNDATION**

INTERNAL CONTROL

1.0 Audit finding No. 1 - INTERNAL CONTROLS (Continued)

v. Recommendation

1. Payment vouchers should be prenumbered.
2. Supporting documents should be cancelled upon presentation to avoid subsequent presentation.
3. Program officers should prepare reports on visits to sub-grantees.
4. Ledgers and Financial reports prepared should be reconciled on a monthly basis.
5. Sub-grantee narrative reports and financial reports should be carefully reviewed and approved by TAF representatives.
6. Bank reconciliations should be prepared on a regular basis and subsequently reviewed and approved by a responsible officer. Such a review should be evidenced in writing.
7. TAF should establish procedures to ensure all narrative reports are received as required by sub-grant agreements.
8. Federal cash transaction reports should be reviewed and approved to ensure their accuracy and completeness.

vi. Management response :

1. The Asia Foundation is in the process of reviewing which of its various payment vouchers should be prenumbered to ensure adequate financial control. The Foundation will notify USAID as to the results of this review, and the resulting action to be taken, as soon as the review is complete.
2. The Asia Foundation agrees, and began canceling supporting documents at the time of payment as of 1 November 1991.
3. After discussion with the auditors, the Asia Foundation has reviewed its sub-grant monitoring procedures regarding visits to sub-grantees, and has made the following changes to be implemented immediately.

INTERNAL CONTROL

1.0 Audit finding No. 1 - INTERNAL CONTROLS (Continued)

When an Asia Foundation program officer travels outside Jakarta, he/she will prepare a trip report recording visits of a program nature with sub-grantees. When an Asia Foundation program officer visits or meets with a sub-grantee in Jakarta, he/she will prepare a brief memorandum for the record if the Program Officer determines that the visit/meeting has major program implications.

4. As of 25 June 1991, the method of financing for for USAID grant agreement GA-0041 has changed from "Periodic Advance" to "Letter of Credit". Financial reports on the Letter of Credit are now prepared by Asia Foundation headquarters in San Francisco and submitted quarterly to A.I.D/Washington, as stipulated in USAID's standard provisions. There is no need for TAF/Indonesia to submit a statement of cash expenditures and needs to USAID.

Paralleling San Francisco's reporting, TAF/Indonesia expects that local ledgers for sub-grantee financial activity will be updated and reconciled with internal Asia Foundation financial reports on a quarterly rather than monthly basis.

5. The Asia Foundation agrees with this recommendation. Review and approval of sub-grantee reports are already part of the existing Asia Foundation sub-grant monitoring procedure. The newly designated Grant Administrative Assistant will work with the Bookkeeper to ensure that these steps in the monitoring procedure are adequately carried out.
6. The Asia Foundation agrees, and has had in place for many years an adequate and timely system for preparing, reviewing and approving (as evidenced by signature of the approving officer) bank reconciliations. During three months of the period under audit, however, the Foundation's book-keeper was absent on maternity leave and check preparation was handled by a less experienced junior staff member. The resulting bank statements had discrepancies and were difficult to reconcile, and the procedure was briefly delayed. The situation has been corrected, and will not recur.

**GRANTS NO. 0041, 8173 AND 7090
THE ASIA FOUNDATION**

INTERNAL CONTROL

1.0 Audit finding No. 1 - INTERNAL CONTROLS (Continued)

7. The Asia Foundation agrees and already has in place, as part of its sub-grant monitoring system, a computerized grant tracking database covering fiscal years 1987 to the present. Reminder letters are sent to sub-grantee notifying them of overdue reports, if reports remain outstanding, further letters are sent and/or the sub-grantees are contacted directly by telephone.

Exceptions to this procedure had been made for sub-grantees with whom Foundation program officers were in regular communication; in those instances, oral reminders were considered adequate. After discussions with the auditors, Foundation staff will now follow the established procedure of sending reminder letters to all sub-grantees without exception.

8. As noted in 4. above, the method of financing for USAID grant agreement GA-0041 has changed from "Periodic Advance" to Federal Reserve Bank "Letter of Credit". The Federal Cash Transaction Report is no longer required for financial reporting from this office, and is no longer being prepared here. All financial reporting relating to the Letter of Credit is now prepared by the Controller's Office of the Asia Foundation headquarters in San Francisco and submitted directly to A.I.D./ Washington.

INTERNAL CONTROL

2.0 Audit finding no.2 - INSURANCE OF FIXED ASSETS

i. Condition :

Purchases of computer equipment under sub-grant ID-1044 and ID-1053 (Approximately of US\$100,000) are not externally insured.

ii. Criteria :

Sound management includes taking appropriate steps to safeguard company assets.

iii. Cause :

TAF Management has taken a conscious business decision to self insure all assets.

iv. Effect :

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

v. Recommendation :

Major assets, the loss of which would cause disruption to the activities of the organization, should be covered by external insurance to ensure quick and effective replacement.

vi. Management response :

Major fixed assets capitalized on the books of the Asia Foundation are covered by appropriate insurance policies through San Francisco. However, in cases where it is the intention of the Foundation to give the assets to its sub-grantees, these assets are not capitalized and insured, even though the Foundation may retain title for control purposes during the life of the grant.

After discussion with the auditors, the Asia Foundation intends to revise its policy regarding insurance of major assets intended for sub-grantee use, to require insurance coverage for those assets during the period when the Foundation retains title. The exact procedure for ensuring this coverage is not yet established, the Foundation will notify USAID when its new procedure is in place.

INTERNAL CONTROL

3.0 Audit finding no.3 - SEGREGATION OF DUTIES

i. Condition :

In the course of our review we noted that the cashier function was inappropriately combined with bookkeeping functions.

ii. Criteria :

Segregation of incompatible duties is fundamental to the reliability of the organization's control systems and to the individual controls within them. The underlying concept is that no one person should be in a position to control all stages of processing a transaction.

iii. Cause :

Limited staff has not allowed Management to effectively segregate all incompatible functions. This has been compounded by one staff being on maternity leave.

iv. Effect :

Errors or irregularities could occur without management becoming aware of them as there is no effective program of double checking.

v. Recommendation :

Given that limited staffing will not allow effective segregation of duties it becomes very important to have effective management review and approval over the combined functions. We recommend that such review and approval procedures be implemented.

vi. Management response :

The Asia Foundation agrees with the recommendation, and is currently in the process of analyzing and revising its procedures to ensure effective review and approval of both bookkeeping and cashier functions.

Drs. Hadi Sutanto & Rekan
Price Waterhouse



**AUDIT OF
PRIVATE VOLUNTARY ORGANISATION CO-FINANCING II
GRANTS NO. 0041, 8173 AND 7090
THE ASIA FOUNDATION
INDONESIA**

**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH GRANT AGREEMENTS,
APPLICABLE LAWS AND REGULATIONS**

We have audited the Fund Accountability Statements as set out on pages 9, 10 and 11 of Private Voluntary Organisation Co-Financing II Grants No. 0041, 8173 and 7090 granted to and administered by The Asia Foundation for the 15 month period ended June 30, 1991, the 33 month period ended June 30, 1991 and the 52 month period ended August 31, 1991 respectively. These statements are the responsibility of The Asia Foundation's management. Our responsibility is to express an opinion on these statements based on our audit.

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 Fund Accountability Statements are free of material misstatement.

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



**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH GRANT AGREEMENTS,
APPLICABLE LAWS AND REGULATIONS (Continued)**

Our testing of transactions and records disclosed instances of non compliance with those laws and regulations. All instances of non-compliance that we found are identified in audit findings number 1,2 and 3 on pages 15 to 21 and audit findings number 4,5, and 6 on pages 24 to 29.

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

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

JAKARTA,
OCTOBER 7, 1991


Kantor Akuntan Publik
Drs. Hadi Sutanto & Rekan
Correspondents of Price Waterhouse


DRS HARYANTO SAHARI - Partner
Akuntan D-2947
Drs Hadi Sutanto & Rekan

COMPLIANCE WITH GRANT AGREEMENTS, APPLICABLE LAWS AND REGULATIONS

4.0 Audit Finding No. 4 - INTEREST INCOME

i. Condition :

TAF has not reported interest income on advances received from USAID on the Federal Cash Transaction Report. This includes TAF's interest income and sub-grantees interest income.

ii. Criteria :

OMB Circular No. A-110 Attachment D, paragraph 2 requires that interest earned on advances of Federal funds should be reported and remitted to the federal agency.

iii. Cause :

No interest income has been reported as management expects to report and remit interest income at the completion of the grant.

iv. Effect :

TAF has not reported or remitted interest income on advances received from USAID funds and consequently has not met USAID's requirement. The financial effect of this non-compliance has not been determined yet.

v. Recommendation :

Management of TAF should establish and implement procedures to report to USAID any interest income earned on advances provided through the grants on a regular basis.

TAF also should determine the amount of interest earned to date and report and remit these funds to USAID.

vi. Management response :

As stated above (1.0, vi,4 and 1.0,vi,8), the method of financing for USAID grant agreement GA-0041 has been changed from "Periodic Advance" to "Letter of Credit". As a result of the change, reporting interest on periodic advances held locally is no longer an issue.

**GRANTS NO. 0041, 8173 AND 7090
THE ASIA FOUNDATION**

**COMPLIANCE WITH GRANT AGREEMENTS, APPLICABLE LAWS AND
REGULATIONS**

vi. Management response : (continued)

As to the interest earned on advances prior to the change in financing method, TAF/Indonesia is consulting with the Controller's Unit in TAF/San Francisco to determine the most efficient method for reporting and remitting that interest.

All advances of funds from USAID to the Asia Foundation are deposited in an interest bearing account in San Francisco. Any interest earned is reported as part of the quarterly financial reporting by San Francisco.

**GRANTS NO. 0041, 8173 AND 7090
THE ASIA FOUNDATION**

**COMPLIANCE WITH GRANT AGREEMENTS, APPLICABLE LAWS AND
REGULATIONS**

5.0 Audit Finding No. 5 - SEPARATE BANK ACCOUNTS

i. Condition :

Under Grant No. 8173, the sub-grantee has not maintained a separate bank account for USAID funds.

ii. Criteria :

The sub-grantee agreement requires that a separate bank account be opened for the funds received from TAF.

iii. Cause :

Management has not established follow-up procedures to ensure that the sub-grantee is in full compliance with agreement terms.

iv. Effect :

Control over funds advanced to sub-grantee is reduced i.e. it is more difficult to ensure that USAID funds are only being used for designated purposes and are not comingled with other funds. Reporting of any interest earnings is also more difficult.

v. Recommendation :

Procedures should be implemented to ensure that all requirements of sub-grantee agreements are complied with prior to advance of funds. In this particular instance TAF should direct funds only to sub-grantee accounts which have been established specifically to accept USAID funds.

vi. Management response :

As part of its sub-grant monitoring procedure, the Asia Foundation already requires in its Letter of Agreement that sub-grantees establish separate bank accounts for the management of USAID funds. Beginning in FY 1992, the

**GRANTS NO. 0041, 8173 AND 7090
THE ASIA FOUNDATION**

**COMPLIANCE WITH GRANT AGREEMENTS, APPLICABLE LAWS AND
REGULATIONS**

vi. Management response :

Foundation is adding the requirement that sub-grantees attach a copy of the bank statement to their periodic financial report to the Foundation. Should a sub-grantee fail to attach the bank statement, no further funds will be advanced until the situation is investigated and corrected. The Foundation feels this procedure will adequately ensure that sub-grantees are in full compliance with sub-grant agreements.

COMPLIANCE WITH GRANT AGREEMENTS, APPLICABLE LAWS AND REGULATIONS

6.0 Audit Finding No. 6 - EXCESS ADVANCES

i. Condition :

Grant No. 0041 has had excess advances at each month end reporting date from March 1990 to June 1991 except for October, November and December 1990. These excess advances ranged from US\$ 19,000 in March 1991 to US\$ 147,000 in April 1991. At June 30, 1991 the excess advance was US\$ 103,000.

On receipt of grant monies it has generally taken two to three months to liquidate advances received.

ii. Criteria :

USAID Handbook Chapter 13, Paragraph 2. (a) (5) require that the TAF Management system provide for procedures to minimize the time elapsing between the transfer of funds from USAID to disbursement by TAF.

Cash advances should be expended within 30 days measured from the date of receipt of the advance.

iii. Cause :

Budgeted expenditure to sub-grantee was delayed.

iv. Effect :

Potential for unauthorised use of funds and ineffecient use of funds available. Interest income earned on these excess advances is not being reported on the Federal Cash Transaction Report - refer Audit Finding No. 5. The Government of USA is also unnecessarily incurring interest costs on these excess advances.

v. Recommendation :

Procedures and policies to minimize the time elapsing between the transfer of funds from USAID to disbursement by TAF need to be developed, implemented and monitored by TAF.

vi. Management response :

The management of periodic advances from USAID has been an area of concern for the Asia Foundation. TAF is aware of the requirement to minimize holding excess advances. However, the time required by USAID to process requests for advances is both irregular and extended. Thus, while it is true that TAF has periodically held excess advances beyond 30 days, it is equally true that TAF has had to rely on its own funds for extended periods while awaiting advances from USAID.

The change in method of financing from "Periodic Advance" to Letter of Credit" was suggested by USAID as a means of eliminating both TAF's having to use its own funds and periodically holding excess USAID advances. San Francisco currently uses the Letter of Credit as a reimbursement mechanism, drawing down on it as funds expended in the field for grant activities covered by USAID Grant Agreements are reported to San Francisco. Internal Asia Foundation procedures ensure that amounts disbursed to TAF/Indonesia are for immediate needs only.

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