

**Regional Inspector General for Audit
Singapore**

**AUDIT OF
THE CENTRAL COUNCIL OF
SOCIAL SERVICES
SRI LANKA**

**Audit Report No. 5-383-92-16-N
May 29, 1992**



**AUDIT OF
THE CENTRAL COUNCIL OF SOCIAL SERVICES
SRI LANKA**

AUDIT REPORT NO. 5-383-92-16-N

May 29, 1992

The Central Council of Social Services' Fund Accountability Statement presents fairly the receipts and expenditures of the grant received from USAID/Sri Lanka and the Council complied, in all material respects, with applicable laws, regulations, and agreement terms. However, two material internal control weaknesses and certain non-material instances of noncompliance were noted.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

May 29, 1992

TO: Richard Brown, Mission Director
USAID/Sri Lanka

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

SUBJECT: Audit of The Central Council of Social Services - Sri Lanka
Audit Report No. 5-383-92-16-N

The accounting firm of Coopers & Lybrand, Singapore, performed a financial audit of USAID/Sri Lanka's grant with The Central Council of Social Services (CCSS) in Sri Lanka. Five copies of the audit report are enclosed for your action.

Under the Private Voluntary Organization Co-financing II Project, USAID/Sri Lanka provided a grant to CCSS to strengthen the administration and management capabilities of voluntary organizations in Sri Lanka. CCSS is a non-government service and development organization with the status of an approved charity. CCSS serves as the co-ordinating umbrella organization in the country for over 145 voluntary agencies. The Council's activities include conducting training workshops and seminars, awarding microgrants, and rendering emergency relief services. Eighty-eight percent of CCSS's total funding is sourced through USAID/Sri Lanka and the majority of its donor contributions are directed towards the development of non-governmental organizations. The period covered by the audit was from May 1, 1988 through July 31, 1991. During this period, CCSS received \$429,546 from USAID and expended \$417,960 under the grant (see charts on pages 3 and 4 of the report).

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

The auditors reported that CCSS's Fund Accountability Statement presents fairly the receipts and expenditures under the grant with USAID/Sri Lanka and that the organization complied, in all material respects, with applicable laws, regulations, and agreement terms. However, two

material internal control weaknesses and certain non-material instances of noncompliance were noted, which resulted in \$5,311 in questioned costs.

The management of CCSS generally agreed with the auditors' findings and recommendations. Their comments are set out under each individual finding in the report and in full as Appendix B herein.

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/Sri Lanka resolve the \$5,311 in questioned costs, and recover from The Central Council of Social Services any costs not allowable under the grant.

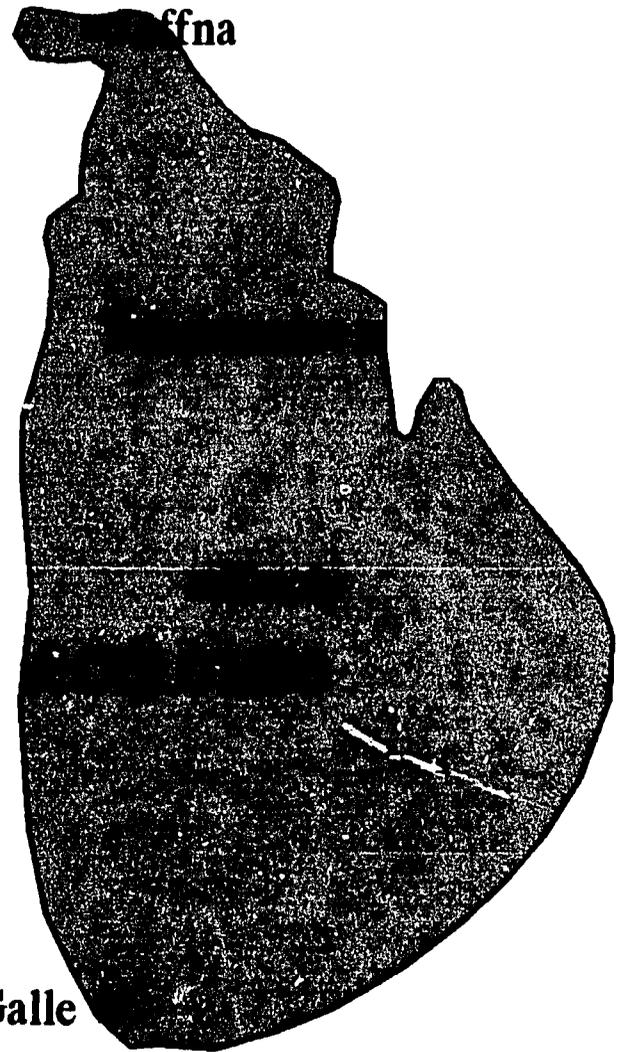
Recommendation No. 2: We recommend that USAID/Sri Lanka verify that The Central Council of Social Services establishes and implements adequate internal accounting control procedures to: (i) evidence authorization on payment vouchers and salary sheets; and (ii) notate all supporting documents upon payment.

Recommendation No. 3: We recommend that USAID/Sri Lanka verify that The Central Council of Social Services establishes and implements adequate procedures to comply with Agreement terms on timely reporting, conducting annual evaluations, and monitoring its budgeted co-financing contributions.

We appreciate the courtesies and cooperation USAID/Sri Lanka and CCSS 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.

ASIAN SUBCONTINENT



Sri Lanka

Area: 24,959 sq. mi.

Population: 17 million

Capital: Colombo

AUDIT OF
THE CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA
PERTAINING TO ITS PVO CO-FINANCING GRANT WITH THE
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
IN SRI LANKA

PVO CO-FINANCING II 383 - 0101, GRANT NO 5
FOR THE PERIOD MAY 1, 1988 TO JULY 31, 1991

Performed and Prepared

by

Coopers & Lybrand
Singapore

AUDIT OF
THE CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA
PERTAINING TO ITS PVO CO-FINANCING GRANT WITH THE
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
IN SRI LANKA

INDEPENDENT AUDITORS' REPORT

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your reference
our reference

A6/WR/9283

Mr James B Durnil
Regional Inspector General
for Audit, Singapore,
US Agency for International Development
#17-03 Peninsula Plaza
111 North Bridge Road
Singapore 0617

May 4, 1992

Dear Mr Durnil

This report presents the results of our audit of the Central Council of Social Services, Sri Lanka ("CCSS") pertaining to PVO Co-Financing II 383-0101 Grant No. 5 ("Grant No. 5") with the United States Agency for International Development, Sri Lanka ("USAID"), for the period May 1, 1988 to July 31, 1991. Funding under this Grant continues beyond our review period.

Background - Sri Lanka

At present, the World Bank lists Sri Lanka as one of the poorest countries in the world with an average per capita income of only US\$430 per annum.

In an attempt, therefore, to boost productivity and the general living conditions of the Sri Lankan people, a number of Private Voluntary Organizations ("PVOs") and government institutions are working together on a variety of socio-economic based initiatives and projects.

However, a number of deficiencies have been identified in the operation of these PVO bodies, including:

- The lack of an ongoing centralized permanent association of PVOs;
- Failings in the areas of training, the lack of ability to access donor resources, and poor project management skills; and
- The fact that PVO expertise for local self-help projects has been overlooked simply because they are often considered to be too small or too local for consideration by large international donor organizations.

As an umbrella organization for over 145 voluntary agencies, CCSS is seen as a body capable of assisting in the correction of these problems.



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Mr James B Durnil
Regional Inspector General
for Audit, Singapore,
US Agency for International Development
Singapore

CCSS - The Organization and its Programs

The Central Council of Social Services, Sri Lanka ("CCSS") is a non-governmental service and development organization established in 1946 on the special recommendation of the Government of Sri Lanka's Social Services Commission. Its current status is that of an approved charity, registered under the Department of Social Services and it is affiliated with the International Council of Social Welfare in Vienna. CCSS is a co-ordinating umbrella organization in Sri Lanka for over 145 voluntary agencies and it conducts training workshops and seminars, awards microgrants, and renders emergency relief services.

Its primary objectives are to:

- (a) Build a network of Non-Government Organizations (NGOs) and to serve as a forum for NGO opinions on development issues as well as creating personal and organizational links to share experiences and resources.
- (b) Urge development practitioners to explore their common denominations within the diverse sections of the development community.
- (c) Provide strengthening microgrants, engage in research, disseminate information, and provide training to upgrade the management competencies of its affiliates and other Sri Lankan NGOs.

The majority of the Council's total donor contributions are directed towards NGO development (refer Chart A following). Eighty-eight percent of CCSS's total funding is sourced through USAID.

Audit Objectives and Scope of Work

We have conducted a financial audit of CCSS's Fund Accountability Statement as it relates to Grant No. 5 received under the PVO Co-Financing II Project, for the period May 1, 1988 to July 31, 1991.

For the period, CCSS received approximately US\$462,000 in contributions from both USAID and other donors for use in developing its objectives.

Whilst USAID has provided over 90% of this amount, nearly half its expenditure is towards the costs of employing an expatriate director (refer Chart B following). However, it is envisaged that these costs will be phased out over the next few years with the selection of a local Co-Director to be trained as the current director's full-time replacement.

**CHART A: CCSS DONOR CONTRIBUTIONS
BY PROJECT**

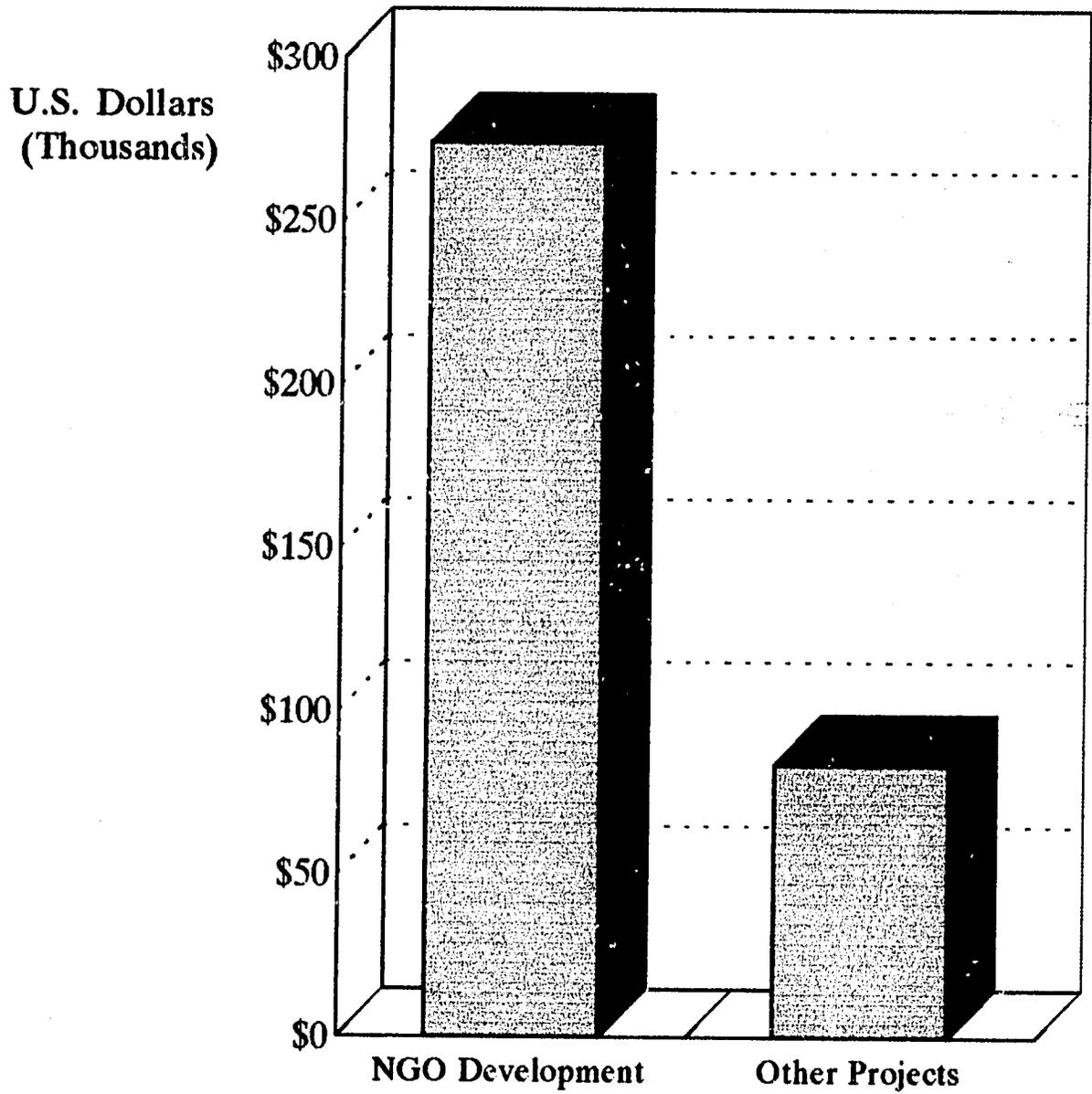
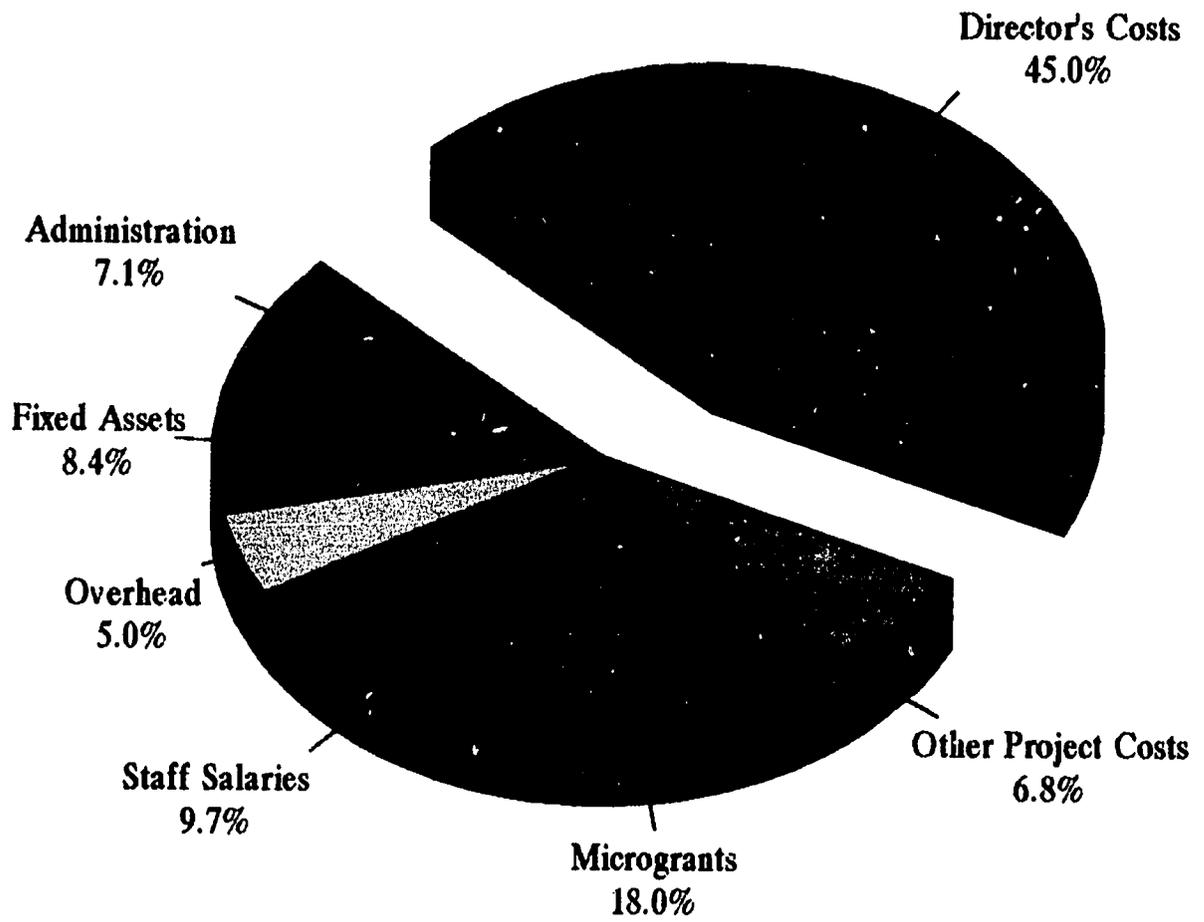


CHART B: PROJECT EXPENDITURE BY TYPE



Mr James B Durnil
Regional Inspector General
for Audit, Singapore,
US Agency for International Development
Singapore

The Fund Accountability Statement comprises the Income and Expenditure Statement for Grant No. 5 for the period May 1, 1988 to July 31, 1991, and the notes thereon. The results of our work are reflected in the accompanying Independent Auditors' Reports on the:

- (a) Fund Accountability Statement;
- (b) System of Internal Control; and
- (c) Compliance with Agreement Terms, Applicable Laws and Regulations.

The objectives of our work were to determine whether:

- (a) The Fund Accountability Statement for CCSS presents fairly the income, expenditures and closing balances of CCSS as they pertain to its Co-Financing Project for the period noted above and in accordance with the terms of the Grant Agreement. Expenditure reimbursed by USAID, as well as costs claimed as part of CCSS's contribution to the Grant, were covered by this audit;
- (b) CCSS's internal accounting controls were adequate to provide reasonable assurance that the assets of CCSS were safeguarded against loss from unauthorized use or disposition and that transactions were properly recorded; and
- (c) CCSS has complied with applicable laws, regulations and agreement terms.

Our audit was conducted in accordance with generally accepted auditing standards and US Government Auditing Standards and, accordingly, included such tests as we considered appropriate in order to satisfy our objectives.

The scope of our work included the following general procedures:

- (a) Holding meetings with USAID, CCSS and USAID Regional Inspector General for Audit/Singapore ("RIG/S") officials;
- (b) Reviewing the Grant Agreement and appropriate amendments, OMB circulars, AID handbook regulations, prior period audit reports on CCSS's financial statements, correspondence and minutes of meetings between USAID and CCSS, as well as project progress reports maintained by both CCSS and USAID;
- (c) Obtaining an understanding of the accounting, administrative and internal control systems of CCSS using questionnaires, interviews, flowcharts and narrative descriptions;

Mr James B Durnil
Regional Inspector General
for Audit, Singapore,
US Agency for International Development
Singapore

- (d) Devising and performing appropriate tests on the transactions recorded in the Fund Accountability Statement;
- (e) Designing appropriate audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the results of our audit. We were also aware of the possibility of illegal acts that could have an indirect and material effect on the results of our audit; and
- (f) Testing the effectiveness of administrative controls applied by CCSS's management to ensure compliance with applicable laws, regulations and agreement terms.

Audit Results

(a) Opinion on the Fund Accountability Statement

In our opinion, the Fund Accountability Statement presents fairly, in all material respects, the income, expenditure and closing cash balances of CCSS for the period May 1, 1988 to July 31, 1991, as they pertain to Grant No. 5 received from USAID under the PVO Co-Financing II Project.

(b) System of Internal Controls

In accordance with Paragraph 19 of Chapter 5 of Government Auditing Standards, we limited our reliance on CCSS's internal control structure as our preliminary review and documentation of the accounting and control systems indicated that an adequate structure did not exist for our reliance due to the small size of the entity. In order to maintain the efficiency of our audit, we therefore expanded our substantive testing.

During the course of our audit, though, we noted certain matters involving the internal control structure and its operation that we considered to be reportable conditions. Two of these items were also considered to be material weaknesses. These matters have been detailed within the body of our report.

(c) Compliance with Agreement Terms, Applicable Laws and Regulations

Our tests for compliance with agreement terms, applicable laws and regulations of selected transactions and records of CCSS indicated that, for the items tested, CCSS principally complied with those provisions of its agreement terms, as well as applicable laws and regulations, for the period under our review.

Mr James B Durnil
Regional Inspector General
for Audit, Singapore,
US Agency for International Development
Singapore

Certain instances of non-compliance were however noted, and these have been discussed further in our detailed report on pages 20 to 30. However, the overall result of these non-compliance issues is not considered to have a material effect on the Fund Accountability Statement of CCSS for the period under our review.

Total USAID reimbursed costs questioned amounted to US\$5,311.

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

In the course of our work, no significant or material findings and recommendations from previous audits, that affect the current audit objectives, were noted.

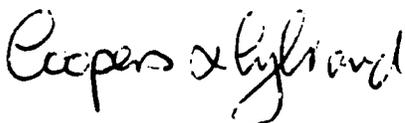
Comments on Findings and Recommendations

The management of CCSS have principally agreed to our findings and recommendations on the non-compliance issues set out on pages 20 to 30 and their comments can be found on the relevant pages of our findings and in full in Appendix B.

Acknowledgements

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

Yours truly



**REPORT ON THE
FUND ACCOUNTABILITY STATEMENT**

your reference
our reference

A6/WR/9283

Mr James B Durnil
Regional Inspector General
for Audit, Singapore,
US Agency for International Development
#17-03 Peninsula Plaza
111 North Bridge Road
Singapore 0617

Dear Mr Durnil

**THE CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA
PERTAINING TO ITS PVO CO-FINANCING GRANT WITH THE
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
IN SRI LANKA**

**INDEPENDENT AUDITORS' REPORT ON THE FUND
ACCOUNTABILITY STATEMENT**

We have audited the Fund Accountability Statement of the Central Council of Social Services, Sri Lanka ("CCSS") pertaining to PVO Co-Financing II 383-0101, Grant No. 5 ("Grant No. 5") with the United States Agency for International Development, Sri Lanka ("USAID"), and as it relates to the period May 1, 1988 to July 31, 1991. Funding under the Grant continues beyond our review period.

This Statement, comprising the Income and Expenditure Statement for the Grant and the notes thereon, and as set out on pages 10 and 11, is the responsibility of CCSS's management. 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 US Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures



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PERTAINING TO ITS PVO CO-FINANCING GRANT WITH THE
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
IN SRI LANKA

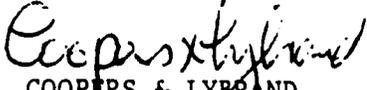
INDEPENDENT AUDITORS' REPORT ON THE FUND
ACCOUNTABILITY STATEMENT

in the financial statements. An audit also includes assessing the accounting principles used, and significant estimates made, by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As stated in Note 2 on page 11 the Fund Accountability Statement presents only the transactions of CCSS as it pertains to Grant No. 5 received from USAID under the PVO Co-Financing II Project, as well as CCSS's own contributions to this Grant, and is not intended to present fairly the income and expenditure of CCSS as a whole.

In our opinion, the Fund Accountability Statement referred to above presents fairly, in all material respects, the income, expenditure and closing cash balances of CCSS for the period May 1, 1988 to July 31, 1991 in conformity with generally accepted accounting principles.

This report is intended solely for the use of USAID and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the USAID Regional Inspector General for Audit, Singapore, is a matter of public record.


COOPERS & LYBRAND
Certified Public Accountants

May 4, 1992



CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA

PVO CO-FINANCING II PROJECT, GRANT NO. 5

INCOME AND EXPENDITURE STATEMENT
FOR THE PERIOD FROM MAY 1, 1988 TO JULY 31, 1991

	USAID Contribution Rs	CCSS Contribution Rs	Total Contribution Rs	US\$ Equivalent
INCOME				
Net funds contributed	16,786,676.00	1,300,000.00	18,086,676.00	462,812.00
EXPENDITURE				
Executive Director's costs (Note 4)	7,377,327.00		7,377,327.00	188,775.00
Other salaries and related costs	1,590,087.00		1,590,087.00	40,688.00
Rental of premises	347,656.00		347,656.00	8,896.00
Telephone and postage	136,194.00	44,731.00	180,925.00	4,630.00
Vehicle fuel & maintenance	878,049.00	19,351.00	897,400.00	22,963.00
Office furniture & equipment	826,972.00		826,972.00	21,161.00
Microgrants	2,956,754.00	900,570.00	3,857,324.00	98,703.00
Travel & per diem	64,287.00	28,677.00	92,964.00	2,379.00
Seminars & training	533,793.00	49,913.00	583,706.00	14,936.00
Consultants	361,021.00		361,021.00	9,238.00
Publications	102,038.00	20,485.00	122,523.00	3,135.00
Evaluation costs	44,708.00		44,708.00	1,144.00
Overhead costs (Note 3)	1,114,991.00	11,341.00	1,126,332.00	28,821.00
	16,333,877.00	1,075,068.00	17,408,945.00	445,469.00
Funds surplus for the period	452,799.00	224,932.00	677,731.00	17,343.00

.....
Dr Robert Russell

CCSS Executive Director
The notes on page 11 form part of this statement

THE CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA

Notes to the Fund Accountability Statement

1 Significant Accounting Policies

- (a) The Fund Accountability Statement, expressed in Sri Lankan Rupees and their US dollar equivalent, is prepared in accordance with the historical cost convention.
- (b) Expenditure is accounted for on an accruals basis. Income relates to amounts received, in cash or in kind.
- (c) Transactions arising in foreign currencies are translated to US dollars using an average rate for the statement period.

2 Component unit of CCSS, Sri Lanka

The Fund Accountability Statement presents only the transactions of CCSS as they pertain to Grant No. 5 received from USAID under the PVO Co-Financing II Project and is not intended to present fairly the income and expenditure of CCSS as a whole.

3 Overhead allowance

CCSS overhead costs sourced from USAID contributions are based on a fixed rate in relation to direct USAID funded expenditure. The rate has been established at 10%.

4 Executive Director's costs

Executive Director's costs comprise base salary and allowance components including housing and travelling expenses.

REPORT ON THE SYSTEM OF INTERNAL CONTROLS

11A

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& Lybrand**

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your reference
our reference

A6/WR/9283

Mr James B Durnil
Regional Inspector General
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#17-03 Peninsula Plaza
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Dear Mr Durnil

**THE CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA
PERTAINING TO ITS PVO CO-FINANCING GRANT WITH THE
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
IN SRI LANKA**

**INDEPENDENT AUDITORS' REPORT ON THE SYSTEM OF
INTERNAL CONTROLS**

We have audited the Fund Accountability Statement of the Central Council of Social Services, Sri Lanka ("CCSS") pertaining to PVO Co-Financing II 383-0101, Grant No. 5 ("Grant No. 5") with the United States Agency for International Development, Sri Lanka ("USAID"), and as it relates to the period May 1, 1988 to July 31, 1991. Funding under the Grant continues beyond our review period.

This Statement, comprising the Income and Expenditure Statement for the Grant and the notes thereon, is set out on pages 10 and 11 and we have issued our report thereon dated May 4, 1992.

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 financial statements are free of material misstatement.

12



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**THE CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA
PERTAINING TO ITS PVO CO-FINANCING GRANT WITH THE
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
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**INDEPENDENT AUDITORS' REPORT ON THE SYSTEM OF
INTERNAL CONTROLS**

In planning and performing our audit of CCSS, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Statement and not to provide assurance on the internal control structure of CCSS as a whole.

The management of CCSS 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 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 classified the significant internal control structure policies and procedures in the following categories:

Accounting Controls:

- Cash receipts
- Cash disbursements
- Payroll
- Property and equipment
- Microgrant funding

Administrative Controls:

- Cost allocation and allowability
- Monitoring
- Reporting

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

**THE CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA
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**INDEPENDENT AUDITORS' REPORT ON THE SYSTEM OF
INTERNAL CONTROLS**

As a result of these procedures, and in accordance with Government Auditing Standards, we limited our reliance on the internal control structure as, given the small size of the entity, an adequate structure for the purposes of audit reliance was considered not to be in existence. As a consequence, we adopted a substantive testing approach in our audit of the Fund Accountability Statement.

However, during the course of our audit, 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 the internal control structure that, in our judgement, could adversely affect the organization's ability to record, process, summarize and report financial data, consistent with the assertions of management, in the financial statements.

Our audit revealed the following reportable conditions, which are described in detail on Pages 16 and 17:

- (a) Some payment vouchers and salary sheets covered by our review showed no evidence of authorization;
- (b) Some supporting documentation had not been effectively cancelled at the time of payment; and
- (c) On some occasions we noted a lack of acknowledgement by petty cash recipients on supporting vouchers. We also noted a lack of evidence by cheque signatories that they had sighted supporting documentation prior to signing cheques.

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 Statement being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned tasks.

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

THE CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA
PERTAINING TO ITS PVO CO-FINANCING GRANT WITH THE
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
IN SRI LANKA

INDEPENDENT AUDITORS' REPORT ON THE SYSTEM OF
INTERNAL CONTROLS

reportable conditions that are also considered to be material weaknesses as defined above. However, we consider that the reportable conditions annotated as (a) and (b) above are material weaknesses.

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Coopers & Lybrand
COOPERS & LYBRAND
Certified Public Accountants

May 4, 1992

CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA

SCHEDULE OF REPORTABLE CONDITIONS

- (A) LACK OF EVIDENCE OF AUTHORIZATION AND ACKNOWLEDGEMENT OF CERTAIN DOCUMENTATION
- (B) SOME SUPPORTING VOUCHERS NOT EFFECTIVELY CANCELLED AT TIME OF PAYMENT

Condition

We noted the following reportable conditions during our audit:

- (a) Some payment vouchers and salary sheets covered by our review showed no evidence of authorization by a responsible official to indicate approval of the claims being made.
- (b) Some supporting documentation such as bills, invoices and vouchers had not been effectively cancelled at the time of payment.
- (c) On some occasions we noted a lack of acknowledgement by petty cash recipients on supporting vouchers. We also noted a lack of evidence by cheque signatories that they had sighted supporting documentation prior to signing cheques.

Criteria

The above deficiencies do not constitute the requirements of adequate internal controls and sound accounting practice.

Effect

Payments of claims without the appropriate approval of a responsible official may result in unauthorized or excess costs being incurred by the organization, whilst the non-cancellation of supporting documents at the time of payment may lead to the possibility of documents being resubmitted for payment more than once. The lack of acknowledgement by petty cash recipients may also lead to inappropriate claims.

No evidence of impropriety was, however, noted by us during the course of our audit as a result of these conditions.

Cause

These have resulted from an oversight by management.

CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA

SCHEDULE OF REPORTABLE CONDITIONS

- (A) LACK OF EVIDENCE OF AUTHORIZATION AND ACKNOWLEDGEMENT
OF CERTAIN DOCUMENTATION
- (B) SOME SUPPORTING VOUCHERS NOT EFFECTIVELY CANCELLED
AT TIME OF PAYMENT

Recommendation

The following courses of action are recommended:

- (a) That a review of the current system of acknowledgement and authorization procedures in respect of payment vouchers, petty cash documents and monthly salary sheets be implemented to correct those deficiencies noted above.
- (b) That additional efforts be made to ensure that all supporting documents are effectively cancelled after payment to prevent their use in support of further payments.

Management's Comments

We have requested a local chartered accounting firm to perform a review of our internal control procedures in order that they can be strengthened and the above conditions be eliminated.

Staff members involved in making payments against unauthorised vouchers have been questioned and action with them is pending receipt of the accountants report.

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

your reference
our reference

A6/WR/9283

Mr James B Durnil
Regional Inspector General
for Audit, Singapore,
US Agency for International Development
#17-03 Peninsula Plaza
111 North Bridge Road
Singapore 0617

Dear Mr Durnil

**THE CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA
PERTAINING TO ITS PVO CO-FINANCING GRANT WITH THE
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
IN SRI LANKA**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
AGREEMENT TERMS, APPLICABLE LAWS AND REGULATIONS**

We have audited the Fund Accountability Statement of the Central Council of Social Services, Sri Lanka ("CCSS") pertaining to PVO Co-Financing II 383-0101, Grant No. 5 ("Grant No. 5") with the United States Agency for International Development, Sri Lanka ("USAID"), and as it relates to the period May 1, 1988 to July 31, 1991. Funding under the Grant continues beyond our review period.

This Statement, comprising the Income and Expenditure Statement for the Grant and the notes thereon, is set out on pages 10 and 11 and we have issued our report thereon dated May 4, 1992.

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 financial statements are free of material misstatement.



resident partners

Tan Swan Jeng
Reggie M Thein
Jonathan H E Ooi
Khoo Kum Wing
Chew Kia Ngee
Chan Ket Teck

Noris C G Ong
David G Compton
Phillip E S Tan
Michael G Gray
Chew Teck Soor
Foo Tiang Sooi

Ernest T P Seow
Jimmy K H Seet
Lawrence K S Seet
Edwin T S Khoo
Leong Yit Siang
Quek Soo Tat

Betty Khoo
Chey Chor War

directors

D Michael Fleming
Andrew Jackomos
Joyce Tan
David K H Toh

THE CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA
PERTAINING TO ITS PVO CO-FINANCING GRANT WITH THE
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
IN SRI LANKA

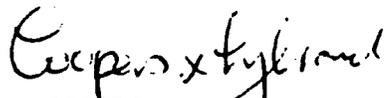
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
AGREEMENT TERMS, APPLICABLE LAWS AND REGULATIONS

Compliance with laws, regulations, contracts, grants and binding policies and procedures applicable to CCSS is the responsibility of CCSS's management. As part of our audit, we performed tests on selected transactions and records of CCSS for compliance with those provisions. However, it should be noted that, whilst we performed those tests of compliance as part of obtaining reasonable assurance about whether the financial statements were free of material misstatement, our objective was not to provide an opinion on compliance with such provisions.

Our testing of transactions and records disclosed instances of non-compliance with certain laws and regulations and they are set out in summary on page 20, and in detail on pages 21 to 30 and Appendix A.

However, the results of our tests indicated that with respect to the items tested, CCSS complied, in all material respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that CCSS had not complied, in all material respects, with those provisions.

This report is intended solely for the use of USAID and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the USAID Regional Inspector General for Audit, Singapore, is a matter of public record.


COOPERS & LYBRAND
Certified Public Accountants

May 4, 1992

CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA

SUMMARY OF AUDIT FINDINGS ON NON-COMPLIANCE

- 1 Based on the level of funding provided by USAID to July 31, 1991, CCSS did not attain its estimated co-financing contribution for the period under review.
- 2 Claim and reimbursement of amounts from USAID in excess of budget allowances.
- 3 Non-adherence to microgrant rules.
- 4 Non-compliance with property marking provisions.
- 5 Source waiver for vehicle procurement not obtained at time of purchase.
- 6 Non-adherence to some specific reporting provisions.
- 7 Cheque signatory not sanctioned by the Council's constitution.
- 8 There were additional questioned costs, not included above, amounting to US\$15,225.

CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

1 BUDGETED CO-FINANCING CONTRIBUTIONS NOT ATTAINED

Condition

The Council has not attained its budgeted co-financing contributions for this Grant as at July 31, 1991.

<u>Budgeted Non-USAID contributions</u> Rs	<u>Non-USAID contributions corresponding to these budget lines</u> Rs	<u>Variance</u> Rs	<u>Other Non-USAID contributions</u> Rs	<u>Net Variance</u> Rs
1,221,362	1,063,727	157,635	11,341	146,294 *

* These amounts are calculated in relation to the level of contributions provided by USAID for the period under review.

Criteria

As this Grant is provided under Co-Financing Projects, the Grantee is required to expend an agreed minimum of their own funds in return for an established level of US Government funding. The Project Agreement states CCSS's respective budgeted co-financing contributions.

Effect

CCSS has not attained the co-financing contributions budgeted for in the Grant Agreement by an estimated amount of Rs 157,635 (US\$4,034). CCSS has, however, contributed to the project's aims on other non-budgeted items, reducing its overall co-financing deficit for this Grant to Rs 146,294 (US\$3,744). Refer Appendix A.3, Item 1.

However, based on our review, we are of the opinion that, subject to the availability of alternate donor funding, CCSS should be able to meet its co-financing obligations by the conclusion of the project.

Cause

Alternative donor funding had not been as strong as originally anticipated.

CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

1 CO-FINANCING OBLIGATIONS NOT MET (Cont'd)

Recommendation

We recommend that CCSS continue its close monitoring of budget requirements, discussing non-achievements with appropriate USAID officials and requesting budget amendments when this is considered necessary.

Management's Comments

We agree to follow recommendations to monitor budget requirements as the project moves forward, and propose budget amendments as appropriate.

CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

2 CLAIMS IN EXCESS OF BUDGET

Condition

CCSS has claimed and been reimbursed for an amount which exceeds its budgeted allowance by more than 15%, without obtaining prior approval from USAID.

	<u>Budget</u> Rs	+ 15% <u>Allowance</u> Rs	<u>Actual</u> Rs	<u>Excess amount</u>	
				Rs	US\$
<u>Executive Director's Contract</u>					
Travel and Per Diem	390,800	449,420	480,574	<u>31,154</u>	<u>797</u>

Criteria

The Co-Financing Agreement stipulates that funds are to be administered in accordance with the terms and conditions set forth in the financial plan. Guidelines and Procedures issued by the Mission in respect of PVO Co-Financing Project II-383-0101 only permit adjustments among cost elements to a maximum of 15% without prior approval.

Effect

CCSS has claimed and been reimbursed for an amount exceeding an individual budget line allowance by US\$797. Refer Appendix A.1, Item 1.

Cause

This occurred as a result of an oversight by CCSS's management.

Recommendation

CCSS should ensure that it continues to carefully monitor budget allowances against incurred expenditure to prevent such occurrences.

CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

2 **CLAIMS IN EXCESS OF BUDGET**
(Cont'd)

Management's Comments

The matter of the over-run was discussed with USAID at the time. It was considered that as the expenditure involved would not exceed the entire budget category ("operational travel") by more than 15%, then the exceeding of individual items within that budget category was not so applicable.

CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

3 NON-ADHERENCE TO MICROGRANT REGULATIONS

Condition

CCSS has not adhered to its rules governing maximum funding allowances in respect of microgrants awarded to NGOs.

Criteria

Clause C(5) of the Council's microgrant rules require affiliate organization's contributions under microgrant projects to be not less than 20% of the total project cost.

Effect

CCSS has exceeded the funding limits established by its microgrant rules by an amount of Rs 34,207 (US\$875). Refer Appendix A.1, Item 2.

The allowance of expenditure in excess of the approved limits is not considered to have been detrimental to the microgrant project.

Cause

It is contended that the inclusion of "in-kind" contributions would correct the deficiencies noted in affiliate contributions. However, CCSS does not conduct any formal assessment of these possible contributions as part of its award process.

Recommendation

Should CCSS wish to include "in-kind" contributions in its assessment of micrograntees then it is recommended that this procedure be formally included in its review process. Should CCSS consider that microgrants in excess of the 80% established limit will continue to be awarded then it is also recommended that a review of the current rules be undertaken.

Management's Comments

CCSS will review the current rules regarding microgrant "in-kind" contributions with a view to assessing the feasibility of more accurately determining in-kind contribution values and accounting methods.

CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

4 NON-COMPLIANCE WITH PROPERTY MANAGEMENT PROVISIONS

Condition

CCSS has not appropriately marked equipment funded by USAID to indicate its procurement with US government funds.

Criteria

Section 725.7009 of AID Handbook 14 requires, insofar as practicable, the appropriate marking of US financed assets to identify the source of their procurement funding.

Effect

The non-identification of US funded assets may result in a co-mingling of these assets with other non-USAID funded equipment.

Cause

The need to appropriately tag US funded assets was not made known to CCSS by USAID as required by Handbook Supplement 1B.

Recommendation

CCSS should ensure that all equipment funded by USAID is marked with an appropriate identification tag. Furthermore we recommend that USAID communicate to both CCSS and other appropriate NGOs on the need to appropriately mark US funded assets, at the same time providing details where appropriate marking insignia might be obtained.

Management's Comments

CCSS will immediately comply with the appropriate marking of all assets in such a way as to prevent co-mingling of USAID funded assets with those provided by other donors.

CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

5 SOURCE WAIVER NOT OBTAINED PRIOR TO PURCHASE

Condition

CCSS did not obtain a source/origin waiver prior to procuring a motor vehicle outside the authorized geographic code.

Criteria

The authorized geographic code for this procurement was noted as being Code 000 (the United States). Where an amendment in geographic codes is considered necessary, a waiver is required to be obtained pursuant to AID Handbook 1, Supplement B, Section 4C2d(1).

Effect

Appropriate purchasing authorization was not obtained at the time of procurement. No financial effect has, however, been noted as a result.

Cause

The purchase of the vehicle was administered by the Mission with no funding passing directly through CCSS. The failure to request an appropriate waiver resulted from an oversight by the Mission.

Recommendation

The appropriate waiver has now been obtained. CCSS should however ensure adherence to such requirements for any similar future purchases.

Management's Comments

CCSS understood that a blanket waiver was in effect and that none was specifically necessary for our vehicle. A source waiver for our second vehicle has been obtained from the USAID Mission.

CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

6 NON-ADHERENCE TO SOME SPECIFIC REPORTING AND MONITORING PROVISIONS

Condition

CCSS has not adhered to certain specific reporting and monitoring requirements as detailed in the Grant Agreement. These include:

- annual evaluations of the project have not been conducted;
- microgrant rules were not provided within 3 months of signing the Grant Agreement; and
- some reports have not been submitted within the required time.

Criteria

Various provisions of the Grant Agreement require specific evaluation and reporting criteria to be completed on a timely and periodic basis, with copies of these reports to be provided to both USAID and appropriate Sri Lankan Ministries.

Effect

The non-completion and timely submission of reports may hinder an effective evaluation and monitoring of the project funded under the Grant Agreement.

Cause

CCSS's management contend that work loads and oversight have resulted in this non-compliance.

Recommendation

CCSS should ensure its compliance with the reporting provisions of the Grant Agreement. Where such compliance is not considered possible, CCSS should request appropriate amendments.

Management's Comments

The requirement to also submit reports to the CCSS Policy Management Committee has hindered the adherence to some timing provisions. The USAID Project Officer has suggested that a standardized quarterly reporting format be used with all PVO Co-Financing projects. We will continue to discuss reporting problems and constraints with the Project Officer.

CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

7 UNSANCTIONED CHEQUE SIGNATORY

Condition

As part of the Council's control over expenditure, two signatories are required for cheque certification prior to their release. The Council's Executive Director is normally one of these signatories. However, under the Council's Constitution he is not a sanctioned signing body.

Criteria

Clause II of the Council's Constitution permit the signing of cheques by two officials from either the President, Honorary Treasurer or member nominated for the purpose by the Executive Committee. The Executive Director does not, by definition, fall into any of these categories.

Effect

No evidence of impropriety or financial loss was noted during our audit as a result of this matter.

Cause

The authorization for the Executive Director to act as a cheque signatory was based on the grounds of operational efficiency and effectiveness.

Recommendation

CCSS should ensure its adherence to the principles detailed in its constitution concerning expenditure authorization. If this should prove inappropriate, CCSS should take the necessary action to amend its constitution accordingly.

Management's Comments

The Executive Director was added as a cheque signatory by a decision of the Policy Management Committee. Members were aware that CCSS's Constitution did not provide for this. The Constitution is now under evaluation and a provision for making the Executive Director one of the approved signators is included in that revision.

CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

8 OTHER CLAIMED AMOUNTS

Condition

During the course of our audit, we came across certain other amounts which were considered either "questioned costs" by us or items appropriate for consideration as "Grant efficiency findings". The details of these amounts, totalling Rs 142,805 (US\$3,639) and Rs 610,434 (US\$15,620) are set out in Appendices A.2 and A.3 respectively.

Criteria

CCSS should ensure its compliance with USAID guidelines and grant requirements. The basis of questionability of each item noted is set out in Appendices A.2 and A.3.

Effect

CCSS have claimed costs totalling Rs 142,805 (US\$3,639) which may be questionable. Rs 610,434 (US\$15,620) have been considered for the purpose of Grant efficiency. Refer Appendices A.2 and A.3.

Cause

CCSS have overlooked USAID guidelines and grant requirements in relation to these amounts.

Recommendation

It is recommended that CCSS review the amounts set out in Appendices A.2 and A.3, discussing them with USAID, and institute appropriate action to resolve these items.

Management's Comments

CCSS will consult with USAID as part of a strategy for resolving these issues.

A P P E N D I C E S

CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA

QUESTIONED COSTS AS TO
REASONABLENESS, ALLOWABILITY AND ALLOCABILITY

<u>Finding</u>	<u>Condition</u>	<u>Basis of Questionability</u>	<u>Amount Rs</u>	<u>Equivalent US\$</u>
1	Finding 2 Claim and reimbursement of amounts in excess of budget limits	Allowability - excess budget claims	31,154	797
2	Finding 3 Microgrant funding in excess of established limits	Allowability - funding exceeded predetermined limits	34,207	875
3	Finding 8 Other questioned costs	Refer Appendix A.2	142,805	3,639
			<u>TOTAL</u>	<u>5,311</u>
			<u>208,166</u>	<u>3,639</u>

CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA

QUESTIONED COSTS AS TO
REASONABLENESS, ALLOWABILITY AND ALLOCABILITY

<u>Item</u>	<u>Condition</u>	<u>Basis of Questionability</u>	<u>Amount Rs</u>	<u>Equivalent US\$</u>
<u>Finding 8</u>				
Executive Director's costs	Included in this budget line is an expense for the procurement of a computer	Allocability - incorrectly claimed as part of sundry costs	119,535	3,059
Other salaries	Non-project time (estimated) charged to USAID	Allowability - time on non-USAID project charged under the Grant	23,270	580
			<u>142,805</u>	<u>3,639</u>

CENTRAL COUNCIL OF SOCIAL SERVICES, SRI LANKA

FINDINGS NOTED FOR CONSIDERATION AS TO GRANT EFFICIENCY

	<u>Condition</u>	<u>Amount Rs</u>	<u>Equivalent US\$</u>
1	Co-financing contributions not attained (Refer Finding 1)	157,635	4,034
2	Advances in excess of normal operating requirements requested from USAID (refer the Fund Accountability Statement, Page 10)	452,799	11,586
		<u>610,434</u>	<u>15,620</u>



audit

CCSS SUMMARY OF AUDIT FINDINGS
ON NON-COMPLIANCE

MANAGEMENT'S COMMENTS

JANUARY 22, 1992
SUBMITTED: DR. ROBERT RUSSELL,
CCSS EXECUTIVE DIRECTOR

1. Co-Financing Obligations Not Met

Management's Comments:

We agree to follow recommendations to monitor budget requirements as the project moves forward, and propose amendments as appropriate.

2. Claims in Excess of Budget

Management Comment:

a) Travel and Perdiem. At the time of taking home leave I discussed the remaining funds available and the cost requirements of my family's home leave. Mr. Casey and I felt that while I was over the 15% limit on a. in the line item (travel to and from Sri Lanka) the costs of my air tickets would not go over the allowed amount when calculating for the entire line item a. and b. (operational travel). We both thought that the 15% rule applied to an entire budget category not specifically to the items within the budget category.

The cause mentioned in this section was discussed but it was not the reason that the budgeted amount was exceeded. CCSS understands that time taken to process budget revisions is not a valid reason to exceed budgeted amounts.

We agree completely with Auditor's Recommendations and this over expenditure in question was a result of an oversight. In the past we have always sought to amend budgets in anticipation of over-runs as is being recommended.

35



3. Non-Adherence to Micro-grant Regulations

Management's Comments:

CCSS will review the current rules regarding Micro-grant in-kind-contributions with a view to assessing the feasibility of more accurately determining in-kind-contribution values and accounting methods.

As well USAID and CCSS have (since the period covered by this audit) to increase the grant ceiling to Rs. 500,000, well over the budgeted amount of any grant given to date.

4. Non Compliance with Property Provisions.

Management's Comments:

CCSS will immediately comply with an appropriate marking of all assets in such a way as to prevent co-mingling of assets with other donors.

5. Source Waiver Not Obtained.

Management's Comments:

CCSS understood that a blanket waiver was in effect and that none was specifically necessary for our vehicle. A source waiver for our second vehicle has been obtained from the USAID Mission.



6. Non-Adherence to Some Specific Reporting and Monitoring Provisions.

- a) - Annual evaluation of the project have not been conducted:
- b) - Micro-grant rules were not provided within 3 months of signing the grant agreement:
- c) - Some reports have not been lodged with in the required time.

Management's Comments:

As a point of clarification, while required quarterly reports have been filed late, the Contractor is (at the request of the Policy Management Committee and the Contractor's supervisor the President of CCSS) and has since the start of the Contractor's term, been submitting a monthly report on all major issues along with a monthly financial accounting of all expenditures to the CCSS Policy Management Committee.

These reports have been used as the focus of all internal evaluation and project assessment discussions that the Policy Management Committee has with the Management.

The USAID Project Officer has suggested that a standardized quarterly reporting format be used with all PVO Co-Financing projects. We will continue to discuss reporting problems and constraints with the Project Officer. It would be counterproductive to have one reporting format for USAID and another for our management committee (to whom I answer) which is the present condition.

7. Unsanctioned Cheque Signatory

Management's Comments:

Dr. Russell was added as a cheque signator by a decision taken at a Policy Management Committee meeting. Members were aware that the CCSS Constitution did not provide for this, and as the Constitution did not provide for any paid staff, a decision was taken to amend the Constitution. The Constitution is now under evaluation with an eye to amending it before the next Annual General Meeting in June of 1992. A provision for making the Executive Director one of the signators is included in that revision.



Page 4

8. Other Questioned Costs.

Management's Comments:

CCSS will consult with USAID as part of a strategy for resolving issues listed in APPENDIX A.2. We recommend that those USAID Officers who originally discussed any of these items with us be present for considerations of clarification and continuity.

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