

Regional Inspector General for Audit
Nairobi, Kenya

**Audit Of
The Pathfinder Fund
Cooperative Agreement Under Burundi
Population Project No. 695-0123**

Report No. 3-695-92-01-N
November 27, 1991



**Audit of
The Pathfinder Fund
Cooperative Agreement Under Burundi
Population Project No. 695-0123**

**Audit Report No. 3-695-92-01-N
November 27, 1991**

The audit disclosed questioned and unsupported costs totalling the equivalent of \$1,678. Further, the Pathfinder Fund under-reported the equivalent of \$70,047 in expenditures to USAID/Burundi. Also, weaknesses were identified with the internal control structure and compliance with the cooperative agreement.

Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

UNITED STATES POSTAL ADDRESS
BOX 232
APO N.Y. 09675

INTERNATIONAL POSTAL ADDRESS
POST OFFICE BOX 30261
NAIROBI, KENYA

November 27, 1991

MEMORANDUM

TO: Glenn G. Slocum, USAID Representative, Burundi
FROM: Toby L. Jarman, RIG/A/Nairobi 
SUBJECT: Audit of the Pathfinder Fund Cooperative Agreement Under Burundi
Population Project No. 695-0123

Attached are five copies of a Mission-contracted financial audit report of the Pathfinder Fund Cooperative Agreement Under Burundi Population Project No. 695-0123. The accounting firm of Price Waterhouse, Kenya performed the audit.

The purpose of the Burundi Population project was to assist the Government of Burundi to promote economic and social development in Burundi through an effective family planning program. The program's goal was to reduce Burundi's high population growth rate and improve the health and well being of mothers and children. The Pathfinder Fund, a U.S. private voluntary organization was selected to assist in implementing this project. Grant funding totalled about \$3.4 million, of which \$881,684 was obligated for local currency direct costs. For the period March 1989 through December 1990, local currency expenditures totalled \$74,431.

The objectives of the audit were to:

- review and express an opinion on the Fund Accountability Statement of local currency;
- evaluate and report on the auditee's internal control structure; and
- review and report on the auditee's compliance with the cooperative agreement and applicable U.S. laws and regulations.

2

The audit disclosed that the Pathfinder Fund under-reported the equivalent of \$70,047 to USAID/Burundi. Further, the audit questioned Burundi Francs (BF) 56,000 (\$338)¹ and considered BF 209,648 (\$1,340)¹ as unsupported of the total costs of \$74,431 claimed. The audit identified material internal control structure weaknesses requiring improvement which included cost-center accounting and unsubstantiated procurement selection. Also, the audit reported that the auditee did not comply with financial reporting requirements to USAID/Burundi.

The draft audit report was submitted to USAID/Burundi and the auditee for comment and their respective comments (Appendix I and Appendix II, respectively) were incorporated in the final report by Price Waterhouse. We are including the following recommendations in the office of the Inspector General audit recommendation follow-up system.

Recommendation No. 1: We recommend that the USAID Representative, Burundi determine the allowability and recover, as appropriate, from the Pathfinder Fund:

1.1 Burundi Francs 56,000 (\$338) in questioned costs, and

1.2 Burundi Francs 209,648 (\$1,340) in unsupported costs.

Recommendation No. 2: We recommend that the USAID Representative, Burundi require that the Pathfinder Fund reconcile the difference of the equivalent of \$70,047 recorded but not reported to USAID/Burundi and correct the financial reports as appropriate.

Recommendation No. 3: We recommend that the USAID Representative, Burundi require that the Pathfinder Fund, improve its internal control structure and compliance with the cooperative agreement under the Burundi Population Project by establishing and implementing procedures for:

3.1 proper cost-center accounting;

3.2 substantiating procurement selection; and

¹ The conversion of Burundi Francs to dollars was based upon the monthly exchange rate for the month in which the costs were recorded in the books of the Pathfinder fund, Burundi office.

3.3 complete financial reporting to USAID/Burundi.

We consider Recommendation Nos. 1, 2 and 3 unresolved pending receipt of a plan for corrective action. Please respond to this report within 30 days indicating actions planned or already taken to implement the recommendations.

Thank you for the cooperation and courtesy extended to Price Waterhouse and Regional Inspector General for Audit representatives during the audit.

Attachments: a/s

\$

e

**Audit of
The Pathfinder Fund
Cooperative Agreement Under Burundi
Population Project No. 695-0123**

ATTACHMENTS



USAID/BURUNDI

**NON-FEDERAL AUDIT OF THE PATHFINDER FUND COOPERATIVE AGREEMENT
UNDER BURUNDI POPULATION PROJECT NO. 695-0123**

FINAL REPORT

2

Price Waterhouse



15 November 1991

Mr Toby Jarman
Regional Inspector General
United States Agency for International Development
Sonalux Building
Nairobi, Kenya

Dear Mr Jarman

Re: Non-Federal Audit of the Pathfinder Fund Cooperative
Agreement - Burundi Population Project No. 615-0123

Enclosed please find the final audit report referenced above,
performed under our Indefinite Quantity Contract No. OTR-00000-
I-0009-00, Delivery Order 14. This audit was performed in
accordance with generally accepted auditing standards and the
financial and compliance standards of the Controller General's
Government Auditing Standards.

We would like to express our appreciation to USAID/Burundi and
the Pathfinder Fund for the cooperation and assistance provided
to the Price Waterhouse team during this audit.

Yours Sincerely

Vernon Bouch
Partner

NON-FEDERAL AUDIT OF THE PATHFINDER FUND COOPERATIVE AGREEMENT
UNDER BURUNDI POPULATION PROJECT NO. 695-0123

TABLE OF CONTENTS

Page No

1	INTRODUCTION	1
	1.1 Background	1
	1.2 Audit Objectives and Scope	2
	1.2.1 Audit Objectives and Scope	2
	1.2.2 Methodology	3
	1.3 Brief Summary of Audit Results	4
	1.3.1 Fund Accountability Statement	4
	1.3.2 Internal Control Structure	4
	1.3.3 Compliance with Cooperative Agreement and Related Provision	4
	1.3.4 Financial Management Capabilities	4
	1.3.5 Exhibits	5
	1.4 Summary of Mission Comments	5
	1.5 Summary of Pathfinder Fund Comments	5
2	FUND ACCOUNTABILITY STATEMENT	6
	2.1 Independent Auditor's Report	6
	2.2 Fund Accountability Statement	7
	2.3 Findings and Recommendations	7
	2.3.1 Introduction	7
	2.3.2 Sample Selection Criteria	7
	2.3.3 Summary Audit Results	8
	2.3.4 Analysis of Costs Recorded and Costs Reported	9
	2.3.5 Questioned Costs	10
	2.3.6 Unsupported costs	11

09

NON-FEDERAL AUDIT OF THE PATHFINDER FUND COOPERATIVE AGREEMENT
UNDER BURUNDI POPULATION PROJECT NO. 695-0123

<u>TABLE OF CONTENTS (CONTINUED)</u>		<u>Page No</u>
3	INTERNAL CONTROL STRUCTURE	12
	3.1 Independent Auditor's Report	12
	3.2 Introduction	15
	3.2.1 Definition	15
	3.2.2 Work Performed	15
	3.3 Findings and Recommendations	16
	3.3.1 Written Procedures	16
	3.3.2 Project Ledger and Internal Reporting	16
	3.3.3 Disbursements	19
	3.3.4 Payroll and Personnel	20
	3.3.5 Asset Management	21
4	COMPLIANCE WITH AGREEMENT PROVISIONS AND U.S. GOVERNMENT REGULATIONS	23
	4.1 Independent Auditor's Report on Compliance	23
	4.2 Introduction	25
	4.3 Findings and Recommendations	25
	4.3.1 Reporting to USAID	25
	4.3.2 Unallowable Costs	26
	4.3.3 Non-Expendable Property	27
5	FINANCIAL MANAGEMENT CAPABILITY	28
	5.1 Job Descriptions	28
	5.2 Local Office Capabilities	28

EXHIBITS

EXHIBITS NO

TITLE

1	LIST OF REPORT RECOMMENDATIONS
2	FUND ACCOUNTABILITY STATEMENT AND NOTES TO STATEMENT
3	SAMPLE TESTED
4	AUDIT RESULTS
5	ANALYSIS OF COSTS REPORTED AND COSTS RECORDED

APPENICES

APPENDIX NO

TITLE

1	MISSION COMMENTS
2	PATHINDER FUND COMMENTS

**NON-FEDERAL AUDIT OF THE PATHFINDER FUND COOPERATIVE AGREEMENT
UNDER BURUNDI POPULATION PROJECT NO. 695-0123**

1 INTRODUCTION

1.1 BACKGROUND

The Burundi Population Project No 695-0123 was undertaken on March 31, 1989 in a grant agreement between USAID/Burundi and the Ministry of Public Health, Government of the Republic of Burundi (GRB).

The Pathfinder Fund, a US private voluntary organization was selected to assist the GRB in implementing the project. Pathfinder's activities are funded through a cooperative agreement between Pathfinder and USAID/Burundi. This cooperative agreement is the subject of this non-Federal audit.

The objective of the cooperative agreement is to assist the GRB to implement the Burundi Population Project in order to promote economic and social development in Burundi through an effective family planning program. The program's goals are to reduce the Burundi high population growth rate and improve the health and well being of mothers and children. This will be accomplished through a significant expansion of the availability and use of family planning information and services.

The estimated project assistance completion date (PACD) is October 1, 1993. The total agreement funding is \$3,410,995 of which \$881,684 is obligated for local currency direct costs.

The scope of the non-Federal audit included review of only local currency costs. These costs are incurred by Pathfinder's local office in Bujumbura, which maintains original documentation of project expenditures. On a monthly basis, these costs are summarized and submitted to Pathfinder Fund Headquarters in the US where accounting and financial reporting are centralized.

As of December 30, 1990 total local currency expenditures reported to USAID were \$ 74,431 (Exhibit 2). The audit sample profile is included as Exhibit 3.

The most important terms of the cooperative agreement with respect to this audit include:

- . funding is through a letter of credit between AID/W and Pathfinder HQ
- . standard reporting requirements for letter of credit recipients as well as quarterly financial and programmatic reports should be implemented
- . accounting records must be maintained according to Pathfinder's usual accounting procedures, adequate to show the receipt and use of goods and services acquired under the cooperative agreement; records and supporting documents should be retained for three years after the PACD and should be audited regularly
- . procurement regulations with respect to source origin, USAID approvals required and procurement files should be followed
- . non-expendable property records should conform to USAID requirements
- . cost principles are governed by OMB circular A-122.

1.2 AUDIT OBJECTIVES AND SCOPE

1.2.1 Audit Objectives and Scope

Price Waterhouse was contracted under its Indefinite Quantity Contract (OTR-0000-I-00-0009-00) to perform a non-Federal audit of the Pathfinder Fund - Burundi Population Project in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision). The principal objective was to determine whether the local currency costs claimed by the auditee are adequately supported in accordance with the agreement and are allowable, allocable and reasonable. Total local currency costs claimed by Pathfinder Fund as of 31 December 1990 are \$74,431 (12,249,853 Burundi Francs).

With respect to the local currency costs, Price Waterhouse was requested to provide written opinions on:

- . the auditee's Fund Accountability Statement
- . the auditee's internal control structure
- . the auditee's compliance with the cooperative agreement and applicable U.S. laws and regulations.

Due to Mission concerns, Price Waterhouse was asked to review the job descriptions and qualifications of financial management personnel to determine the appropriateness of the descriptions and the ability of hired personnel to perform the required financial management functions. Price Waterhouse was also asked to review the nature and extent of project implementation delays and their effect on risk, financial management, internal controls and regulatory compliance.

1.2.2 Methodology

Price Waterhouse conducted the initial survey of the accounting records from February 27 to March 5, 1991 at which time the selection of transactions for detailed testing was completed. Price Waterhouse subsequently prepared its audit work plan for approval by RIG/A/N, secured approval and performed the field work from March 22 to April 5, 1991.

The principal audit steps performed included:

- . a review of the terms and conditions of the Pathfinder cooperative agreement, applicable standard provisions and regulations, and other project documents as deemed necessary
- . a review of the internal control structure in order to classify the recipient's significant internal control policies and procedures

- . performance of detailed compliance, internal controls and errors and irregularities (SAS 53 and 54) audit procedures to evaluate the auditee's compliance with grant and applicable provisions, adequacy of accounting system and internal controls, and to obtain reasonable assurance of detecting errors, irregularities and illegal acts
- . testing of cost transactions from the Pathfinder Fund Burundi Population Project Fund Accountability Statement to determine the extent of non-compliance, unallowable or unallocable expenses and the effectiveness of internal controls
- . reconciliation of financial reports submitted by Pathfinder Fund to USAID's Mission Accounting Control System (MACS) in order to determine if the project expenditures are properly reflected in MACS
- . reconciliation of financial reports submitted by the Pathfinder Fund to local currency records in Bujumbura in order to determine if the financial submissions are accurate and supported by the accounting records
- . review of bank account and reconciliation procedures, including selected testing to determine if non-USAID transactions are present
- . a review of petty cash and reconciliation procedures, including a cash count
- . a review of the financial management capability of the Pathfinder project staff.

Report preparation was performed at our office in Nairobi.

1.3 BRIEF SUMMARY OF AUDIT RESULTS

1.3.1 Fund Accountability Statement

Our audit tests revealed that the local direct costs reported to USAID and included in the Fund Accountability Statement do not agree with the costs recorded by Pathfinder Fund Burundi Office. Recorded Costs exceed those reported to USAID by \$70,047 as of December 30, 1990 (See Section 2.3.4). This is partly because of misallocations of costs on the Fund Accountability Statement.

With respect to incurred expenditures, the results of our audit include \$338 in questioned costs and \$1,340 in unsupported costs. (See section 2.3.3).

1.3.2 Internal Control Structure

Our evaluation of the internal control structure identified certain reportable weaknesses which are described in the Independent Auditor's Report. (See Section 3.1). Areas requiring improvement include cost-center accounting and substantiating procurement selection.

1.3.3 Compliance with Cooperative Agreement and Related Provisions

Our evaluation of Pathfinder's compliance with cooperative agreement and related provisions identified certain material instances of noncompliance. (See Section 4.1). These included the content of the current financial reporting and the inclusion of unallowable costs in the cooperative agreement budget.

1.3.4 Financial Management/Capabilities

Our review of financial management capabilities of project personnel indicates that training and assistance from the Pathfinder Fund Nairobi office are warranted. (See Section 5.0).

1.3.5 Exhibits

The results from our testing and the Fund Accountability Statement are quantified in Exhibits 2 through 5. In Exhibit 1, we have summarized all of the recommendations included in this report.

1.4 SUMMARY OF MISSION COMMENTS

USAID/Burundi concurs with the findings of the report, as summarized by USAID/RIG/A. The Mission comments are included in Appendix 1.

1.5 SUMMARY OF PATHFINDER FUND COMMENTS

The full text of the Pathfinder comments are included in Appendix 2. Pathfinder Fund disagreed with the classification of \$253.83 of the \$338.44 of questioned costs, and disagrees with the entire amount of \$1,340 being classified as unsupported costs. (Recommendation Nos 1, 3, 4, and 5).

Pathfinder agreed with the majority of the findings and recommendations regarding the Internal Control Structure and Compliance with US Laws and Regulations. However, Pathfinder disagreed with the:

finding and recommendation regarding the need to revise the Fund Accountability Statement to reflect costs paid by the local office that are reported against budget elements other than Local Direct Costs. (Recommendation No 2.)

recommendation No 8 to discontinue charging employee personal expenses to USAID and waiting until reimbursement before crediting the project.

findings and recommendations regarding the reporting of incurred costs on the basis of discreet grant budget cost elements. (Recommendations 10 and 19.)

recommendation No 12 regarding the establishment of a ceiling amount for expenditures paid by the local office without approval by Pathfinder regional or headquarters office.

finding that USAID Handclasp emblems are required for vehicles and equipment purchased with grant funds.
(Recommendation 23.)

Price Waterhouse



2 FUND ACCOUNTABILITY STATEMENT

2.1 INDEPENDENT AUDITOR'S REPORT

We have audited the Fund Accountability Statement for the Pathfinder Fund Cooperative Agreement, Burundi Population Project, Number 695-0123 for the period July 1, 1989 through December 30, 1990. This statement is the responsibility of the Pathfinder Fund. Our responsibility is to express an opinion on this statement based upon our audit.

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

As discussed in the following Notes to the Fund Accountability Statement, the statement was prepared on the basis of generally accepted accounting principles.

The costs reported on the Fund Accountability Statement as at December 30, 1990 do not agree to the costs incurred and recorded by Pathfinder - Burundi office. The costs incurred exceed the costs reported by \$70,047.

With respect to incurred expenditures, the results of our audit include \$ 338 in questioned costs and \$ 1,340 in unsupported costs.

With the exception of the amounts stated above, in our opinion, the Fund Accountability Statement presents fairly, in conformity with the basis of accounting described in Exhibit 2, the revenues and expenses for local direct costs of the Pathfinder Fund Cooperative Agreement, Burundi Population Project, for the period July 1, 1989 to December 30, 1990.

8'



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. This report is intended solely for the use of Pathfinder or USAID and should not be used for any other purpose.

April 5, 1991

Ance Wakubawa.

2.2 FUND ACCOUNTABILITY STATEMENT

The Fund Accountability Statement and accompanying Notes to the Statement are included as Exhibit 2.

2.3 FINDINGS AND RECOMMENDATIONS

2.3.1 Introduction

The scope of this audit included only the local currency costs incurred by the Pathfinder Fund's Burundi office. The Burundi office maintains original documentation of project expenditures. A monthly financial report (MFR) is prepared itemizing costs by category of expenditure. This is forwarded to Pathfinder Fund headquarters in the US for review and processing. Accounting and financial reporting to USAID are centralized at the headquarters.

The local direct cost figures reported to USAID and included in the Fund Accountability Statement (Exhibit 2) are based on Pathfinder headquarters Cost/Budget Reports. The reports do not agree with the local office monthly financial reports (MFRs), with a cumulative net difference of \$ 70,047 (11,483,094 BF converted at the monthly average exchange rates) as of December 30, 1990. The cumulative net difference reduced to \$47,552 as of March 31, 1991 (see Section 2.3.4 and Exhibit 5).

The MFRs prepared by the local office from their records were used as the basis for sample selection.

Conversion of Burundi Francs to US dollars is based upon the monthly exchange rate for the given month that the costs are recorded in Pathfinder Fund's Burundi Accounts, as defined in official communications from the Bank of the Republic of Burundi. Our test procedures included verification of the exchange rate and no exceptions were noted.

2.3.2 Sample Selection Criteria

The basis for our sample was the revised Monthly Financial Reports (MFRs) of local direct costs. These reports were revised by the local office in January 1991 and include expenses recorded from September 1989 to December 1990.

Our methodology included the selection of all transactions above a predetermined amount and a judgmental selection of additional transactions based upon sensitivity and potential risk.

The sample profile is as follows:

TOTAL COSTS IN MFRS	SAMPLE SELECTED	PERCENTAGE SELECTED	NOT REVIEWED
BF 23,732,947	16,374,621	69	7,358,326
(BF - BURUNDI FRANCS)			
US\$ 144,478	100,599	69	43,879

The cost recorded in Burundi Francs have been converted to US dollars at the monthly exchange rate in effect for the month the costs were recorded on Pathfinder Fund's Burundi Accounts.

Total costs in the MFRs are net of those "other" unallowable costs which Pathfinder has not billed to USAID. As described in sections 2.3.1 and 2.3.4, the MFRs do not agree with the Cost/Budget Reports prepared by Pathfinder Headquarters (See Exhibit 5). Thus costs selected for detailed testing appear to be greater than costs reported to USAID. (See Exhibit 3).

2.3.3 Summary Audit Results

Finding

Our audit results are summarized as follows:

COSTS CLAIMED	ACCEPTED	QUESTIONED	UNSUPPORTED
BF 12,249,853	11,984,205	56,000	209,648
US\$ 74,431	72,753	338	1,340

Costs Claimed, Accepted, Questioned and Unsupported have been converted to Burundi Francs using the monthly exchange rate in effect for the month the costs were recorded in Pathfinder Fund's Burundi Accounts. The overall average exchange rate for the audit period is 164.58 BF to 1 US\$. However, monthly exchange rates are used for converting from one currency to another in this report whenever reasonably possible). See Exhibit 4 for an analysis with explanatory notes.

Recommendation No 1

Unsupported and questioned costs should be resolved prior to the PACD. Details of these costs are provided below.

Pathfinder Comments

Pathfinders comments on the transactions classified as questioned or unsupported are presented following the detailed discussion of each finding. (See recommendations 3 and 4).

2.3.4 Analysis of Cost Recorded and Costs Reported

Finding

The local direct costs included in the Fund Accountability Statement (based upon the Cost/Budget Report prepared by Pathfinder headquarters) do not agree with the costs recorded by Pathfinder's Burundi Office. The Burundi office maintains the original documentation of project expenditures and reports costs incurred to Pathfinder headquarters on monthly financial reports. The cumulative net differences are summarized below and further details by quarter are provided in exhibit 5.

	As of December 30, 1990	Post-audit period January 1, to March 31, 1991	As of March 31 1991
Costs Reported to USAID (per Fund Accountability Statement)	\$74,431	\$37,702	\$112,133
Costs Recorded	\$144,478	\$15,207	\$159,685
Cumulative Net Difference	<u>(\$70,047)</u>	<u>\$22,495</u>	<u>(\$47,552)</u>
Difference in BF	<11,483,094>BF	3,848,269 BF	<8,134,825>BF

The Cumulative Net Difference Amounts in BF are translated using the monthly average exchange rate in effect when the costs are recorded by Pathfinder Fund in the Burundi accounts, see exhibit 4 for further details

The differences represents both timing differences and misallocations. A reconciliation prepared by the Pathfinder Headquarters as of March 31, 1991, showed that the cumulative net difference comprised the following:

a) Local costs misallocated on Fund Accountability Statement

Month	Description	Reported as	Amount US\$
Oct 89	Vehicles	Supplies & Equip	40,148
Oct 89	Computer Equip	Supplies & Equip	6,387
Sept 90	Int'l travel	Travel	671
Oct 90	Int'l travel	Travel	608
			\$47,814
b) Amounts incurred at Headquarters but incorrectly reported as local costs			(119)
c) Unreconciled difference			(143)
			\$47,552

The amounts incurred for vehicles and computer equipment (\$40,148 and \$6,387) were selected and satisfactorily tested as part of our sample of local direct costs.

Recommendation No 2

Costs misallocated on the Fund Accountability Statement should be corrected prior to the PACD.

Pathfinder Comments

Pathfinder disagrees with the recommendation to revise the Fund Accountability Statement. Pathfinder maintains that the reconciliation presented in the audit report is satisfactory, and that Pathfinder is not required to report to USAID on the basis of individual cost elements within the grant budget. For the full text of the Pathfinder comment see Appendix 2.

Auditor Response

We concur that the audit team successfully reconciled the differences (to within \$143) but disagree with the Pathfinder conclusion that financial reporting to USAID is required only at the aggregate expenditure level. See recommendations 10 and 19.

2.3.5 Questioned Costs

Finding

We noted that check number #141355 for 210,000 BF was issued in August 1990 to cover per diem charges. Supporting documentation accounted for 196,000 BF. The difference in the amount of 14,000 BF (\$ 84.61 at the monthly exchange rate for August 1990) is classified as a questioned cost.

Recommendation No 3

The above amount should be resolved by USAID/Burundi and Pathfinder. Strengthened controls in recording per diem expenditures should be implemented. (See Section 3.3.2, Recommendation No 8).

Pathfinder Comments

Pathfinder concurs with the audit finding and recommendation.

Finding

For the check number cited above, a lump sum was cashed and funds distributed to trainees who signed to acknowledge receipt of per diem funds.

We noted that three payments of 14,000 BF each for a total of 42,000 BF or \$ 253.83 were made to trainees Nzohabonimana, Giuillia and Ciza respectively. The same signature was used to support these three payments. There was no indication that payment was received on behalf of the designated trainee and it was not possible to determine whether the signature related to any of the above three names.

We have therefore questioned the entire amount of 42,000 BF or \$ 253.83.

Recommendation No 4

The above amount should be resolved by USAID/Burundi and Pathfinder. Strengthened controls in per diem distribution should be implemented. (See Section 3.3.3, Recommendation No 14)

Pathfinder Comments

Pathfinder disagrees with the audit finding that the costs should be questioned and has supplied additional background information on the manner in which the funds were disbursed. For the full text of the Pathfinder comment see Appendix 2.

Auditor Response

The additional background information does not change the underlying condition that per diem funds were disbursed to individuals other than the participants, no receipt of acceptance by the attendees was obtained and internal controls over such funds are weak.

2.3.6 Unsupported costs

Finding

Check number 61426 in the amount of 209,648 BF (\$ 1,340 at the monthly exchange rate) was issued in October 1989 to cover Hotel Source due Nil costs for Dr Quirst. We have classified this transaction as unsupported since:

- . a contract between Dr Quirst and Pathfinder was not available for review in Burundi
- . whereas there is a receipt from Dr Quirst for this amount, there is no supporting documentation such as a hotel bill to substantiate if this is the hotel portion of USAID per diem
- . it is unclear how Dr Quirst, as a foreigner, could pay local currency for hotel accommodations in Burundi.

Recommendation No 5

The above amount should be resolved by USAID/Burundi and Pathfinder. Pathfinder should ensure that adequate supporting documentation exists for all project transactions. (See Section 3.3.3, Recommendation No 11).

Pathfinder Comments

Pathfinder disagrees with the audit finding that the costs are unsupported and has supplied additional background information on the manner in which the funds were disbursed. For the full text of the Pathfinder comment see Appendix 2.

Auditor Response

The additional background information does not change the underlying condition that no receipt is available to support the hotel reimbursement portion of the per diem amounts as required by USAID travel regulations.

Price Waterhouse



3 INTERNAL CONTROL STRUCTURE

3.1 INDEPENDENT AUDITOR'S REPORT

We have audited the Fund Accountability Statement for the Pathfinder Fund Cooperative Agreement, Burundi Population Project Number 695-0123 for the period July 1, 1989 through December 30, 1990 and have issued our report thereon dated April 5, 1991.

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

In planning and performing our audit of the Fund Accountability Statement for the period July 1, 1989 through December 30, 1990, we considered the project's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The Pathfinder Fund is responsible for establishing and maintaining an internal control structure for the Burundi Population Project. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with 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 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 as they relate to the Burundi Population project in the following categories:

18



CONTROL ENVIRONMENT

- . written procedures.

ACCOUNTING SYSTEM

- . project ledger and internal reporting
- . bank account and reconciliations.

CONTROL PROCEDURES

- . disbursements (checks and petty cash)
- . payroll and personnel
- . asset management.

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

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

The following reportable conditions were observed:

- . weak accounting during the first 16 months of project implementation
- . non-project expenditures are charged as expenditures and reversed at a later date
- . awards (procurement selection) are not substantiated.



A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our study and evaluation did not disclose any conditions in the system of internal control structure of Pathfinder Fund as it relates to the Burundi Population project in effect at April 5, 1991, which, in our opinion, result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the consolidated financial statement may occur and not be detected within a timely period.

We noted other matters involving the internal control structure and its operation that we have reported in Section 3.3 of the following report.

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. This report is intended solely for the use of the Pathfinder Fund or USAID and should not be used for any other purpose.

April 5, 1991

Pace Waterhouse.

3.2 INTRODUCTION

3.2.1 Definition

American Institute of Certified Public Accountants (AICPA) Codification of Auditing Standards, section 319, defines an organization's internal control structure as consisting of the policies and procedures established to provide reasonable assurance that a specific entity's objectives will be achieved. The internal control structure is composed of three elements:

- . the control environment
- . the accounting system
- . control procedures

The control environment reflects the overall attitude, awareness and actions of management. The accounting system consists of methods and records established to identify, assemble, analyze, classify, record and report transactions. Control procedures are those policies and procedures in addition to the control environment and accounting system that management has established to safeguard the organization's resources.

In Section 3.3 below, we have classified our findings and recommendations by these three elements of the auditee's internal control structure.

3.2.2 Work Performed

Our review of the internal control structure was directed towards those elements which relate to the nature of the project funding. The review encompassed the following:

CONTROL ENVIRONMENT

- . written procedures.

ACCOUNTING SYSTEM

- . project ledger and internal reporting
- . bank account and reconciliations

CONTROL PROCEDURES

- . disbursements (checks and petty cash)
- . payroll and personnel
- . asset management

3.3 FINDINGS AND RECOMMENDATIONS

* CONTROL ENVIRONMENT *

3.3.1 Written Procedures

Finding

We observed that comprehensive procedures on procurement and travel which include USAID regulations have been issued by Pathfinder Headquarters to the Burundi office. These procedures are filed in a correspondence file, rendering them ineffective for guiding staff. The local office staff are not familiar with these procedures and do not use them.

Recommendation No 6

Pathfinder headquarters should provide clarification on the extent to which the local office should implement these procedures. Burundi staff should receive training in these procedures, which should be filed in a manual rather than with correspondence.

Pathfinder Comments

Pathfinder concurs with the audit finding and recommendation.

* ACCOUNTING SYSTEM *

3.3.2 Project Ledger and Internal Reporting

Finding

Project accounting and financial reporting at the local office level are weak, resulting in inaccurate information reported to Pathfinder Headquarters, and subsequently, to USAID. Significant improvement has been noted as of January 1991.

Recommendation No 7

The project journal, which tracks project costs on a daily basis and serves as the posting medium to the Monthly Financial Reports (MFRs), should be reconciled on a regular basis to cash and bank balances. It should be reviewed by management to ensure that balances and line item allocations are accurate. Accounting assistance and oversight from the Pathfinder regional accounting office in Nairobi should be provided on a regular basis.

Pathfinder Comments

Pathfinder concurs with the audit finding and recommendation.

Discussion

During the first sixteen months of project implementation, accounting and financial reporting at the local office level were extremely weak. The project (cash) journal contained many errors in line item classification and bank and cash balances. As this journal is the basis for financial reporting to headquarters, the Monthly Financial Reports (MFRs) submitted to Headquarters during the period September 1989 to December 1990 contained line item allocation errors and incorrect balances.

In January, 1991, the entire project journal was corrected for cash and bank balances. The MFRs for the above period were corrected for line item allocations, cash and bank balances and reported expenditures, and were re-submitted to Headquarters.

Our testing revealed that the revised MFRs are essentially correct. However, we noted that:

- . the revised MFRS were not certified by Burundi office management
- . three line item allocation errors were revealed during our testing; these included applying the cost of car insurance to Fringe Benefits (July 1989) and applying the costs of Social Security contributions to fringe benefits rather than to salary per the local office's standard accounting treatment. (January and October, 1990)

corrections to reported expenditures in the August 1990 MFR in the amount of 97,000 BF should have been processed as 40,000 BF for August 1990 and 57,000 BF for July 1990.

Finding

Non-project expenditures are charged to USAID and reversed at a later date. This includes undisbursed per diem funds, personal expenses and salary advances. The effect of this accounting procedure is to overstate project costs during one period while understating them in another.

Recommendation No 8

Non-project costs and salary advances should be charged to the "other" cost center.

For per diem costs, the initial check should be charged under "other" as per diem advance. Once the per diem advance has been liquidated, it should be charged to the project on an actual basis.

Pathfinder Comments

Pathfinder concurs with the audit finding and recommendation concerning salary advances but disagrees with the recommendation to revise its practice of charging non-project and personal expenses to the USAID project and then crediting the project when reimbursements are received. See Appendix 2 for full details of Pathfinder's comments.

Auditor Response

Non-project and personal expenditures are unallowable costs and including them in invoices, billings, liquidations or advance requests submitted to USAID is prohibited on by the terms of the grant agreement. There is no provision to allow such practices on the basis of lack of accounting systems capability or staff sophistication. We do not agree that \$2,246 in 16 months is immaterial.

Discussion

The accounting system in the local office is biased towards charging USAID. Checks issued for invoices which include personal expenses of staff (eg telephone and postage) are initially charged in full to the project. A credit is posted at a later date once the staff have made a repayment. Similarly, per diem cheques are charged in full to the project. Cash left over is credited at a later date.

For the first 16 months of the project, non-project expenditures amounted to \$2,246. This was not credited to the project until January, 1991, when the bank and cash balances in the project journal were corrected and revised MFRs issued.

For one excess claim of per diem, 14,000 BF cannot be substantiated. This has been classified as a questioned cost (See Section 2.3.5, Recommendation No 2).

We also noted that salary advances are charged as expenditures, thereby over-reporting salary costs in one period and under-reporting them in another. Whereas the salary advances are small and infrequent, it is poor accounting practice to recognize advances as expenditures.

Our testing did not reveal any exceptions with respect to repayment of personal expenses or appropriate deductions in salary subsequent to an advance.

Finding

Although the project journal is the posting medium to the Monthly Financial Reports (MFRs), line items in the project journal do not correspond to line items in the Monthly Financial Reports.

Recommendation No 9

The line items in the journal should be reconcilable to those in the MFR to facilitate an effective review and reconciliation at month end.

Pathfinder Comments

Pathfinder concurs with the audit finding and recommendation.

Finding

Differences between the amounts reported on the MFRs and those recorded on the cost/budget reports do not appear to be regularly identified and followed-up. As a result, major errors of misallocations on the cost/budget reports which occurred in October 1989 were not detected or corrected for.

Recommendation No 10

Reconciliations between the cumulative costs reported on the MFR and those on the cost/budget reports should be regularly carried out. Any errors identified should be promptly corrected.

Pathfinder Comments

Pathfinder generally agrees with the audit finding and recommendation regarding reconciliations between the Cost/Budget Report and the monthly financial reports prepared by the Pathfinder Burundi office. However, Pathfinder maintains that it is not required to report to USAID on the basis of individual cost elements within the grant budget. For the full text of the Pathfinder comment see Appendix 2.

* **CONTROL PROCEDURES** *

3.3.3 Disbursements

Finding

Retention of original supporting documents of transactions is not consistent. Four instances were noted where transactions were supported by photocopies only. Three related to per diem distribution to trainees. Pathfinder indicated that the institution hosting the training retains the original documentation.

Recommendation No 11

The local office should retain original supporting documents for three years after the end of the project for Pathfinder internal audit purposes and to achieve compliance with AID requirements.

For per diem distribution, a duplicate original or certified (signed and stamped) photocopy may be required so that both Pathfinder and the training institution have adequate supporting records.

Pathfinder Comments

Pathfinder generally agreed with the audit finding and recommendation but maintains that photocopies are acceptable for some transactions.

Auditor Response

The fundamental point in this finding is that the established policy of certain training institution(s) is to retain the original. This is not an exception case but rather a design weakness that requires modification of Pathfinder's procedures.

Finding

Approval limits for expenditures are unspecified. Whereas the Resident Advisor typically seeks approval for significant purchases, no procedure or policy is implemented requiring written approval from Nairobi or Boston for disbursements greater than an established amount.

Recommendation No 12

In order to strengthen controls and ensure the propriety of disbursements, Pathfinder HQ should establish an amount above which written approval must be obtained from Pathfinder US or Nairobi prior to disbursement.

Pathfinder Comment

Pathfinder disagrees with the audit recommendation.

Auditor Response

In recognition of the low level of accounting system sophistication, staff accounting training and office size, internal controls by definition contain some weaknesses. The suggested procedure is offered as protection for Pathfinder assets as well as those of USAID.

Finding

We noted that prior to March 1990, the account (line item) allocation code was not indicated on the payment voucher, which serves as the posting medium to the project journal. Our testing of transactions after March 1990 revealed fourteen misallocations on the payment voucher.

Recommendation No 13

The account allocation code on the payment voucher should be closely scrutinized by management prior to approving the payment.

Pathfinder Comments

Pathfinder agrees with the audit finding and recommendation.

Discussion

Whereas misallocation among line items does not affect reporting to USAID (since "local direct costs" is one line item in the cooperative agreement) it impacts effective internal monitoring and management of the local office budget and renders comparisons of budgeted to actual costs meaningless.

As described in Section 3.3.2 above, the Monthly Financial Reports were resubmitted with the account allocation corrected. Improvements were noted during the last months of the period under audit.

Finding

Controls over per diem distribution are weak. We noted three instances where signatures of persons collecting per diem did not correspond to the designated trainees. These have been classified as questioned. (See Section 2.3.5, Recommendation No 4).

Recommendation No 14

Per diem should be collected only by the trainee designated on the course roster, who should duly sign to acknowledge receipt of the per diem.

Pathfinder Comments

Pathfinder disagrees with the audit finding and recommendation. Pathfinder maintains that existing procedures are adequate.

Auditor Response

We feel that existing procedures are generally adequate but do not specifically require the signature of the participant, or provide for alternative procedure when the participant signature is not readily available.

3.3.4 Payroll and Personnel

Finding

We noted that timesheets are used to control the attendance of the three local staff. However, they are not completed in full (holidays, vacation and sick days are not recorded) and they are not reviewed by management.

Recommendation No 15

To render the controls imposed by timesheets operational, timesheets should be completed in full. Management should sign the timesheets to indicate review.

Pathfinder Comments

Pathfinder agrees with the audit finding and recommendation.

3.3.5 Asset Management

Finding

Procurement files contain evidence of competition, however, the basis for the award is not substantiated, particularly when the lowest bidder has not been selected.

Recommendation No 16

Procurement files must contain clear evidence for the basis of selection in order to demonstrate the reasonableness of the expenditure under the cooperative agreement.

Pathfinder Comments

Pathfinder generally agrees with the audit finding and recommendation.

Discussion

We reviewed the procurement files for all non-expendable property purchased under the cooperative agreement. We noted that multiple quotations were generally obtained for each item. However, a clear and comprehensive description of the technical requirements of the product was generally lacking. Offerors therefore submitted quotations for similar but not identical items.

We were unable to determine the reasonableness of the selection, particularly on the occasions when the lowest bid was not selected. These have not resulted in questioned costs since the final expenditure was not unreasonable and it is probable that the item relating to the lowest bid did not meet the technical specifications of Pathfinder. However, as mentioned above, the technical specifications and the basis for award were not documented.

We also noted that on several occasions, quotations were received from only one supplier for different brand names and models. Pathfinder should attempt to obtain quotations from different suppliers to the extent possible and when not available, document why.

Finding

Inventory records of non-expendable property were not maintained prior to January 1991. Current inventory records are incomplete. They do not include:

- . all assets
- . asset components, particularly for computer equipment
- . unique identifiers such as serial numbers to assist in tracing losses.

Recommendation No 17

Inventory records should be updated and maintained on a current basis.

Pathfinder Comments

Pathfinder agrees with the audit finding and recommendation.

Finding

With the exception of motor vehicles, non-expendable property such as computer equipment and a photocopier are not insured.

Recommendation No 18

To protect Pathfinder and USAID interests, Pathfinder management should evaluate the feasibility of insurance in light of the cost to the organization of replacing assets procured under the cooperative agreement from its own resources.

Pathfinder Comments

Pathfinder agrees with the audit finding and recommendation.

Price Waterhouse



4 COMPLIANCE WITH COOPERATIVE AGREEMENT PROVISIONS AND APPLICABLE U.S. GOVERNMENT LAWS AND REGULATIONS

4.1 INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

We have audited the Fund Accountability Statement for the Pathfinder Fund Cooperative Agreement, Burundi Population Project, Number 695-0123 for the period July 1, 1989 through December 30, 1990 and have issued our report thereon dated April 5, 1991.

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

Compliance with laws, regulations, contracts, and grants applicable to the cooperative agreement is the responsibility of Pathfinder's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Pathfinder's compliance with certain provisions of laws, regulations and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. The results of our tests of compliance disclosed the following material instances of noncompliance.

Material non compliance include the incomplete financial reporting to USAID, and the incorporation of unallowable costs in the cooperative agreement five year budget.

We considered these material instances of noncompliance in forming our opinion on whether Pathfinder's financial statements are presented fairly, in all material respects, in conformity with the basis of accounting described in the Notes to the Fund Accountability Statement, and this report does not affect our report dated April 5, 1991 on those financial statements.

34



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

Other minor matters of non-compliance were noted and are included in the subsequent pages.

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. This report is intended solely for the use of Pathfinder and USAID and should not be used for any other purpose.

April 5, 1991

Pace Wakabara

4.2 INTRODUCTION

USAID requires all grantees, regardless of the country or legal entity, to comply with the terms and conditions included in the cooperative agreement, attached provisions and referenced procurement regulations. In general, such compliance cannot be waived by a Mission or by USAID/Washington.

Steps performed in this audit to test compliance with the agreement and related provisions included:

- . a review of cooperative agreement provisions and related regulations to identify those provisions and regulations which could have a material affect on the financial statements
- . audit procedures including detailed testing to evaluate Pathfinder's compliance with these provisions and regulations.

4.3 FINDINGS AND RECOMMENDATIONS

4.3.1 Reporting to USAID

Finding

We noted that the SF 269 Financial Status Report is not prepared by line item as required, rendering the report inadequate for project financial management.

Recommendation No 19

The SF 269 should be completed according to the instructions on the reverse of the form. Columns "a" through "f" should be completed for each line item in the cooperative agreement budget as approved by USAID. (See instructions on form, item 10). This will provide USAID project management with the information needed to "administratively approve" the SF 269 as well as to monitor the financial status of the project.

Pathfinder Comments

Pathfinder disagrees with audit finding and recommendation regarding the completion of Standard Form 269. Pathfinder maintains that it is not required to report to USAID on the basis of individual cost elements within the grant budget. For the full text of the Pathfinder comment see Appendix 2.

Auditor Response

We disagree with the Pathfinder conclusion that financial reporting to USAID is required only at the aggregate expenditure level. See recommendations 10 and 19.

Finding

The quarterly program performance report does not include a Financial Section as required in the cooperative agreement. The purpose of the financial section in the quarterly report is to enable USAID project management to evaluate the project's activities and accomplishments against the incurred costs for a given period. It also serves to document the status of the budget.

Recommendation No 20

The quarterly program performance report should include financial information as described in Attachment 1 to the cooperative agreement. Information reported should include for each budget line item:

- . budgeted amount
- . current period expenditures, by month
- . cumulative expenditures
- . estimated expenditures for the following period
- . estimated expenditures through the PACD.

Analysis and explanation of cost overruns or high unit costs should be provided as appropriate.

Pathfinder Comments

Pathfinder agrees with the audit finding and recommendation.

4.3.2 Unallowable Costs

Finding

We were provided with a detailed breakdown of the local direct cost budget for Year 2 (September 1, 1990 to August 31, 1991) of the cooperative agreement. We noted that of the \$160,767 allocated to local direct costs, \$1,371 represents non-project, unallowable costs (as defined by Pathfinder). The detailed budget (spending plan) was submitted to USAID/Burundi for approval.

Recommendation No 21

The cooperative agreement budget represents the financial plan for the project, the total value of which has been committed by USAID. The budget should be exclusive of all unallowable costs as defined in OMB Circular A-122. Pathfinder should review the budget and process whatever modifications are necessary to remove unallowable costs.

Pathfinder Comments

Pathfinder agrees with the audit finding and recommendation.

Discussion

Although included in the budget and therefore the cooperative agreement, unallowable costs are generally classified as "other" costs and not charged to USAID.

Our testing of local direct costs through December 1990 did not reveal unallowable costs except those identified in Section 2.

We did not obtain copies of the remaining years' budgets for local direct costs and cannot determine whether additional unallowable costs are included. We also did not obtain detailed budgets for non-local costs, which were beyond the scope of this audit.

4.3.3. Non-Expendable Property

Finding

Non-expendable property records are not in compliance with the requirements of the cooperative agreement as defined in the provision "Title to/Use of Property (Grantee Title)".

Information missing for each asset includes serial number, model number, source of funds, location, use and condition (dated).

Recommendation No 22

Pathfinder should improve its non-expendable records to achieve compliance with USAID requirements and to improve management information controls. (See Section 3.3.5, Recommendation No 17).

Pathfinder Comments

Pathfinder agrees with the audit finding and recommendation.

Finding

The majority of assets procured under the cooperative agreement do not display USAID "handclasp" markings.

Recommendation No 23

Handclasp markings should be affixed to all property procured with USAID funds.

Pathfinder Comments

Pathfinder disagrees with the audit finding and recommendation.

Auditor Response

We defer to the USAID grant officer to determine if handclasp emblems are required on project assets.

5 FINANCIAL MANAGEMENT CAPABILITY

5.1 JOB DESCRIPTIONS

Finding

The financial management responsibilities for the Resident Advisor and Administrative Assistant are very vague. Specific tasks to ensure adequate checks and balances in the internal control structure are not included.

Recommendation No 24

Specific financial management responsibilities, particularly with respect to approving, recording, and reporting local currency disbursements, should be documented. This will ensure that staff responsible for project financial management are fully cognizant of their respective roles.

Pathfinder Comments

Pathfinder agrees with the audit finding and recommendation.

5.2 LOCAL OFFICE CAPABILITIES

Finding

Financial management and accounting assistance from Pathfinder Nairobi is required on a regular basis to support the local office.

Recommendation No 25

A schedule of regular accounting support visits to the Burundi office should be implemented. Burundi office management should be provided with training in basic financial management techniques. All of the Burundi office staff should be trained in Pathfinder's documented procedures.

Pathfinder Comments

Pathfinder agrees with the audit finding and recommendation.

Discussion

Where as improvements in the project's financial management have been noted, the period under audit is marked by reportable weaknesses in the internal control structure of the project.

It is possible that delays in project implementation resulted in inadequate attention to establishing a strong internal control structure. Efforts should now be directed towards improving local office financial management systems.

LIST OF REPORT RECOMMENDATIONS

REC NO	PAGE REF	RECOMMENDATION
1	8	Resolve questioned and unsupported costs.
2	10	Resolve misallocated costs as the Fund Accountability Statement
3	10	Resolve \$ 84.61 in questioned per diem costs.
4	10	Resolve \$ 253.83 in questioned per diem costs.
5	11	Resolve \$ 1,340 in unsupported costs.
6	16	Clarify and implement written procedures.
7	16	Perform regular reconciliation and review of project journal.
8	17	Charge non-project costs to unallocated cost center.
9	18	Revise columns in journal to agree to line items in Monthly Financial Reports.
10	19	Reconcile costs per MFRs to cost/budget reports
11	19	Retain all original supporting documentation.
12	19	Establish approval limits for expenditures.
13	20	Perform close scrutiny of payment voucher prior to approval.

REC NO	PAGE REF	RECOMMENDATION
14	20	Ensure that per diem funds are received only by the designated trainees.
15	21	Improve the procedures with respect to timesheets.
16	21	Ensure that procurement files substantiate the basis for award.
17	22	Correct inventory records.
18	22	Evaluate feasibility of insuring non-expendable property.
19	25	Complete the SF 269 Financial Status Report as per the instructions which accompany the Form
20	26	Include Financial section in quarterly program performance report.
21	26	Exclude all unallowable costs from the cooperative agreement budget.
22	27	Improve asset record-keeping to achieve compliance with USAID provisions.
23	27	AFFIX USAID "handclasp" markings to USAID funded assets.
24	28	Document specific financial management responsibilities of local office staff and provide related training.
25	28	Provide regular accounting support from Nairobi to the Burundi office.

FUND ACCOUNTABILITY STATEMENT
BURUNDI POPULATION PROJECT
LOCAL DIRECT COSTS

	COOPERATIVE AGREEMENT FUNDING	COSTS REPORTED AS AT 12/30/90	COSTS REPORT AS AT 3/31/91
	\$	\$	\$
Salaries	627,491	N/A	N/A
General Administration	14,523	N/A	N/A
Travel	187,023	N/A	N/A
Equipment	215,500		
Consulting Fees	68,893	N/A	N/A
Education and Training	198,349	N/A	N/A
Subcontracts	482,000	N/A	N/A
Local Direct Costs	881,684	74,431	112,133
Total Direct Costs	2,675,463	-	-
Indirect Costs	735,532	N/A	N/A
TOTAL COSTS	3,410,995	-	-

NOTES TO THE
FUND ACCOUNTABILITY STATEMENT

- 1 The basis for the statement is the Cost/Budget Reports prepared by Pathfinder which report expenses in accordance with generally accepted accounting principles. The reports are summarized in Exhibit 5 and provide cost details by budget line items, in support of the SF 269 Financial Status Report to USAID.
- 2 Costs reported in the Fund Accountability Statement cover the period July 1, 1989 to December 30, 1990, the scope of this audit. Costs through March 31, 1991 are presented for informational purposes and reviewed to determine the effect of credit transactions processed in January 1991 relating to prior period expenditures.
- 3 The amounts for "Cooperative Agreement Funding" are taken from Amendment 2 to the Cooperative Agreement. Total indirect costs were restated from \$738,428 to \$735,428 to correct for a typographical or casting error in the cooperative agreement budget. Total project revenues remain unchanged.

EXHIBIT 3

SAMPLE PROFILE

	\$
TOTAL COSTS CLAIMED (1)	74,431
RECORDED COSTS NOT CLAIMED (2)	70,047
	<hr/>
TOTAL MFRs - BASIS FOR SAMPLE (3)	144,478
AMOUNT TESTED	100,599
	<hr/>
AMOUNT NOT REVIEWED	43,879

NOTES

- (1) From Cost/Budget Reports which are basis for SF 269 Financial Status Report to USAID. (Exhibit 5)
- (2) Difference between the Cost/Budget Reports and revised local office monthly Financial Reports (MFRs). (Exhibit 5)
- (3) Net of \$ 4,991 "other" costs which are non-project related. (Exhibit 5)

AUDIT RESULTS

	\$	BF
COSTS RECORDED IN MFRs (1)	144,478	23,732,947
LESS COSTS NOT CLAIMED TO USAID (2)	(70,047)	11,483,094
	<hr/>	<hr/>
COSTS CLAIMED	74,431	12,249,853
QUESTIONED COSTS (3)	338	56,000
UNSUPPORTED COSTS (4)	1,340	209,648
	<hr/>	<hr/>
AMOUNT RECOMMENDED FOR ACCEPTANCE (5)	72,753	11,984,205

NOTES TO AUDIT RESULTS

- (1) Costs Recorded in Monthly Financial Reports (MFRs) are net of non-project costs. See Exhibits 3 and 5.
- (2) Costs not claimed to USAID are analyzed by period on Exhibit 5. These are deducted to arrive at costs claimed. Also see Section 2.3.4.
- (3) Questioned costs are itemized in Section 2.3.5 of the audit report.
- (4) Unsupported Costs are itemized in Section 2.3.6 of the audit report.
- (5) The amount recommended for acceptance is the difference between costs claimed to USAID and unsupported/questioned costs. Because of the strength of internal controls and low level of questioned and unsupported costs, we would normally recommend all costs not tested for acceptance.

This would equate to:

\$144,478	Costs recorded in MFRs
- 1,678	Questioned/Unsupported costs
<hr/>	
\$ 142,800	Costs provisionally recommended for acceptance

However, given that Pathfinder has reported only \$ 74,431 to USAID, with a net under-reporting of \$ 70,047 (see Exhibit 5), the costs recommended for acceptance are decreased by the amount under-reported as follows:

\$142,800	Accepted costs from audit
- 70,047	amount not claimed by Pathfinder plus amounts misallocated
<hr/>	
\$ 72,753	Final Amount Recommended for Acceptance

EXHIBIT 5

LOCAL DIRECT COSTS
ANALYSIS OF COSTS REPORTED
AND COSTS RECORDED

Quarter	Cost/ Budget Report \$	MFR (1) \$	Difference \$
3-6/89	0	0	
7-9/89	6,888	5,252	1,636
10-12/89	6,724	64,008	(57,284)
1-3/90	5,426	5,596	(170)
4-6/90	22,315	22,275	40
7-9/90	22,564	24,625	(2,061)
10-12/90	10,514	22,722	(12,208)
TOTAL	74,431	144,478	(70,047)
 <u>Post Audit Period</u>			
1-3/91	37,702	15,207 (2)	22,495
	112,133	159,685	(47,552)

NOTES

- (1) Revised Monthly Financial Reports (MFR) net of "other" which are non-project related.
- (2) MFR totals \$ 17,453 less \$ 2,246 credits which should have been processed.

APPENDIX 1

MISSION COMMENTS

VZCZCNA0081
RR RUEHNR
DE RUTABU #3553 2551610
ZNR UUUUU ZZH
R 121610Z SEP 91
FM AMEMBASSY BUJUMBURA
TO AMEMBASSY NAIROBI 3385
BT
UNCLAS BUJUMBURA 03553

RECEIVED 13-SEP-91

FOR: 03:46
CN: 09081
CHRG: AID
DIST: AID
ADD:

13 SEP 03:12

CGR
USAID/KENYA

AIDAC

E.O. 12356: N/A
SUBJECT: DRAFT AUDIT REPORT FOR THE PATHFINDER FUND
COOPERATIVE AGREEMENT UNDER BURUNDI POPULATION
PROJECT 695-0123

REFS: (A) RIG/A/N MEMORANDUM DATED AUGUST 21, 1991.
(B) NAIROBI 21497, (C) BUJUMBURA 033349

1. MISSION HAS RECEIVED SUBJECT AUDIT AND CONCURS WITH THE THREE RECOMMENDATIONS CONTAINED THEREIN. WE HAVE ALSO PROVIDED A COPY TO PATHFINDER PERSONNEL IN BURUNDI. BECAUSE THE RECOMMENDATIONS PERTAIN TO ACCOUNTING AND INTERNAL CONTROL MATTERS, THE RESIDENT PATHFINDER SPECIALIST HAS REQUESTED THAT THE REGIONAL PATHFINDER OFFICE IN NAIROBI BE ALLOWED TO REVIEW AND PROVIDE THEIR COMMENTS ON THE RECOMMENDATIONS PRIOR TO FINALIZING THE REPORT. (FURTHERMORE, WE HAVE LEARNED THAT THE REGIONAL PATHFINDER OFFICE/NAIROBI WILL NEED TO COORDINATE ITS RESPONSE WITH PATHFINDER HEADQUARTERS IN BOSTON).

2. TIME CONSTRAINTS PLACED ON USAID/BURUNDI PER REF (B) WILL NOT ALLOW SUFFICIENT TIME FOR US TO REQUEST AND RECEIVE THIS INFORMATION PRIOR TO SEPTEMBER 12. THEREFORE, WE REQUEST THAT RIG/A/NAIROBI CONTACT THE REGIONAL PATHFINDER OFFICE TO COORDINATE AND ELICIT THEIR COMMENTS FOR INCLUSION IN THE REPORT.

3. MISSION WOULD ALSO LIKE TO EXPRESS OUR VIEWS ON THE TIMELINESS OF ISSUING REPORTS STATED IN REF (B). IN REF (C), WE REQUESTED AN EXTENSION OF TIME TO PROVIDE COMMENTS ON THE DRAFT REPORT AND PROVIDED WHAT WERE CONSIDERED VALID REASONS FOR OUR REQUEST. AN EXTENSION OF TIME TO SEPTEMBER 12, 1991, WAS SUBSEQUENTLY RECEIVED. WE NOTE HOWEVER, THAT THE FIELD WORK FOR THIS AUDIT HAS COMPLETED ON APRIL 5, 1991. FOR REASONS UNKNOWN TO US, (POSSIBLY BEYOND ANYONE'S CONTROL), THE DRAFT AUDIT REPORT BY PRICE WATERHOUSE WAS NOT FINALIZED UNTIL JULY 8, 1991. FINALLY, ON AUGUST 21, 1991, RIG/A/N ISSUED ITS DRAFT REPORT, WHICH WAS RECEIVED BY THE MISSION ON AUGUST 26, 1991. OUR WRITTEN RESPONSE WAS REQUIRED BY AUGUST 31, 1991.

4. WHILE WE SUPPORT EFFORTS TO EXPEDITE THE ISSUANCE OF

51

FINAL REPORTS BY RIG/A/NAIROBI, WE FAIL TO UNDERSTAND
WHY WE SHOULD BE PUT QUOTE UNDER THE GUN UNQUOTE TO
PROVIDE OUR COMMENTS IN THREE DAYS WHEN OVER FOUR MONTHS
HAD ELAPSED FROM TIME OF COMPLETION OF FIELD WORK TO
ISSUANCE OF THE DRAFT REPORT. WE ARE PROVIDING THESE
COMMENTS IN THE HOPE THAT, IN THE FUTURE, CONSIDERATION
WITH REGARD TO TIMELINESS WILL BE GIVEN TO ALL PARTIES
INVOLVED IN THE AUDIT PROCESS. PERRY

BT
#3553

NNNN

UNCLASSIFIED BUJUMBURA 003553

-2-

38

APPENDIX 2

PATHFINDER FUND COMMENTS



Nine Galen Street, Suite 217 Watertown, MA 02172-0501 U.S.A.
pathways in family planning

October 4, 1991

Mr. Nicholas Makaa,
Auditor
U.S. Agency for International Development
Regional Inspector General for Audit
United States Embassy
Nairobi, Kenya

RE: Response to Draft Audit Report of The Pathfinder Fund
Cooperative Agreement Under Burundi Population Project
No. 695-0123

Dear Mr. Makaa:

We acknowledge receipt of the referenced report, together with the draft letter of transmittal from RIG/A/Nairobi.

Section I addresses the three recommendations cited for inclusion in the Office of the Inspector General audit recommendation follow-up system. In Section II, the specific audit recommendations contained in the Price Waterhouse report are addressed.

I. INSPECTOR GENERAL AUDIT RECOMMENDATION FOLLOW-UP:

Recommendation No. 1: Determine the allowability and recover, as appropriate:

1.1 Burundi Francs 56,000 (\$338) in questioned costs.

During the exit conference with our local representative, the amount of BF 14,000 (\$84.61) was questioned by the auditors for lack of supporting documentation as cited at 2.3.5 of the report. We concur with the finding and are still unable to locate the receipt for this disbursement.

The issue of the three payments totaling BF 42,000 (\$253.83) was never raised with us by Price Waterhouse (PW), and appears in this draft as a surprise.

The three participants mentioned in PW's report, had not yet arrived when our staff person traveled to the training site to disburse per diem funds. Consequently, our person gave the BF 42,000 to the trainer, Dr. Jean Mizigama, for distribution to the participants and made the trainer sign for them. The site was visited again at the beginning of the second week of training to disburse an additional BF 10,000 to each participant, including the three in question.

Bangladesh • Brazil • Indonesia • Kenya • Mexico • Nigeria • Pakistan • Peru • Turkey

Telephone (617) 924-7200 Fax (617) 924-3833 Telex 681-7095 PFBOS

54



Those three participants signed for their BF 10,000. If they had not received the payment of BF 14,000 for the first week, they would have brought it to the attention of our staff person at that time. They did not.

We believe that these costs should be upheld.

1.2 Burundi Francs 209,648 (\$1,340) in unsupported costs.

Once again, this finding comes to our attention for the first time in this report. It was not included as an item for discussion with local management during the April 5, 1991 debriefing. This item should not appear in the final report since we can support this cost with sufficient evidential matter.

- a. A copy of the contract between Pathfinder and Dr. Quirst, together with a work order, is available in our files at this office. PW was informed of the existence of the contract by local staff but never requested it from this office.
- b. Dr. Quirst paid the Hotel Source du Nil for his lodging with the BF check given to him by Pathfinder. The hotel receipt in question was given to Dr. Quirst upon checkout. He left the country with the receipt. We have now contacted Dr. Quirst who acknowledges possession of the receipt, and he is forwarding it to Pathfinder to complete our files.
- c. Technically, Dr. Quirst did not personally pay for his hotel accommodations. Though it is true he physically made the payment, he did so with a Pathfinder local currency check. Therefore, there is no question to legitimately be raised about a foreigner violating local currency laws.

Had this entire matter been addressed properly by PW during their field work, it would have been resolved at that time.

Recommendation No. 2: Require The Pathfinder Fund to reconcile the difference of \$70,047 recorded but not reported to USAID/Burundi and correct the financial reports as appropriate.

The recommendation from RIG/A/N is based upon a distorted presentation of the facts and is not necessary. The auditors have already shown at Section 2.3.4 of the report that \$22,495 of the total difference was adjusted for in the report for the period ended March 31, 1991. The remaining balance of \$47,552 is reconciled on page 9 of PW's report.

We find the presentation of the finding and recommendation at Section 2.3.4 of the report to be misleading. The Fund Accountability Statement is a special purpose statement created by AID/IG for use in presenting audited revenues, expenses and the cash balance of funds provided to AID recipients. It does not represent costs reported to AID as suggested by PW. The cost/budget reports, which formed the basis for the Fund Accountability Statement, were prepared by this office at the specific request of the auditors. How is it, then, that these "audit schedules" are represented by Price Waterhouse as being our reports to USAID?



5



We also disagree with the assertion that \$70,047 represents a project cost recorded but not reported to USAID/Burundi. The attached copy of SF 269 for the period October 1, 1990 through December 31, 1990, reported total project expenses on line K of \$476,041.56. The \$70,047 called out in the auditor's draft report is included in this cumulative expenditure figure. The true issue in this is how the costs were allocated between budgetary line items in analysis provided by Pathfinder to the auditors. There is no underreporting or misallocation of costs reported to the government here. However, PW has chosen to make that claim in the draft report. The recommendation should be eliminated from the report.

Recommendation No. 3: Require The Pathfinder Fund to improve its internal control structure and compliance with the cooperative agreement;

We agree with the general findings and recommendations that result in this recommendation. Implementation of corrective action is underway, and we will supply details of actions taken and planned with our response to the final report.

With regard to the auditor's specific recommendation No. 19 on page 25 of the report, we disagree. The SF 269 has always been completed according to the instructions on the reverse of the form as well as direction from AID/M/FM/PAFD.

The instructions for SF 269 state, "The purpose of vertical columns (a) through (F) is to provide financial data for each program, function, and activity in the budget...". The cooperative agreement with USAID/Burundi represents a single program and activity; hence, a single column reporting format is all that is required. Further, the budget in the agreement is in a cost element/origin format. The instructions do not indicate that the columns are to be used for reporting financial data by component or element of cost.

The foregoing interpretation is consistent with that of AID/M/FM/PAFD. In addition, Optional Standard Provision, Payment-Letter of Credit, is applicable to this agreement. Financial reporting under this provision requires SF 272 and SF 269 to be submitted to AID/M/FM/PAFD in accordance with their instructions. Pathfinder has adhered to those instructions. We have told PW this. They have ignored our statements, and chosen not to verify our representations with AID/M/FM/PAFD.

II. FINDINGS AND RECOMMENDATIONS

Our responses follow the order of presentation in the List of Report Recommendations appearing as Exhibit 1 to the draft report.

Recommendation Nos. 1 thru 5

We have addressed these recommendations in Section I of this response as they were all included in the Inspector General Audit Recommendation Follow-up listing.





Recommendation No. 6

Pathfinder headquarters should provide clarification on the extent to which the local office should implement these procedures. Burundi staff should receive training in these procedures, which should be filed in a manual rather than with correspondence.

Response

We agree that the procedures should be filed in a manual rather than with correspondence. Pathfinder requires all offices to implement and comply fully with its policies and procedures. We have reminded the Burundi office of this requirement and have provided clarification to them on the specific policies cited in the audit report.

Recommendation No. 7

The project journal, which tracks project costs on a daily basis and serves as the posting medium to the Monthly Financial Reports (MFRs), should be reconciled on a regular basis to cash and bank balances. It should be reviewed by management to ensure that balances and line item allocations are accurate. Accounting assistance and oversight from the Pathfinder regional accounting office in Nairobi should be provided on a regular basis.

Response

We agree with the recommendation and note that the auditors have cited that the weaknesses were corrected in January 1991. We have reinforced the recommendations of PW with our local representative and the need to maintain the control procedures on a monthly basis. Pathfinder's regional financial officer in Nairobi is providing assistance and oversight on a regular basis.

Recommendation No. 8

Non-project costs and salary advances should be charged to the "other" costs centre.

For per diem costs, the initial check should be charged under "other" as per diem advance. Once the per diem advance has been liquidated, it should be charged to the project on an actual basis.

Response

Management agrees with the spirit of this recommendation and has instructed our local representative to discontinue the practice of issuing advances against salaries unless specific approval is obtained from the Director of Human Resources on a case by case basis. Also, we have corrected the treatment of per diem advances in accordance with the auditor's recommendation.





It is important to note, however, that Pathfinder field offices account for transactions on a cash basis. This practice has been consistently applied for many years due to lack of accounting sophistication available in many field locations. As a practical matter, the local direct cost budget of the Burundi cooperative agreement does not provide for the employment of an accountant with the requisite skills to maintain accounting records on a full accrual basis. We also do not believe that the benefits to be obtained by full accrual accounting in Burundi justify the cost of implementation. We point out that the variances uncovered by the auditors over the 16 month period were immaterial (\$2,246). Also, these costs were adjusted for in January 1991 by Pathfinder's regional financial officer who had been making periodic visits to the project prior to PW's recommendation to do so. The need for such visits was anticipated and the visits scheduled by regional management for the reasons noted above.

Recommendation No. 9

The line items in the journal should be reconcilable to those in the MFR to facilitate an effective review and reconciliation at month end.

Response

We agree with the recommendation and will take immediate steps to implement.

Recommendation No. 10

Reconciliations between the cumulative costs reported on the MFR and those on the cost/budget reports should be regularly carried out. Any errors identified should be promptly corrected.

Response

In our view, PW misrepresents this finding. The finding makes an inappropriate connection between a cost allocation decision at Pathfinder headquarters and costs reported by the local office. The errors cited by PW as occurring in October 1989 relate to vehicle and equipment purchases which were judgmentally classified by Pathfinder headquarters against the "Supplies and Equipment" line item of the budget. This judgment was based upon consideration of the original intent to procure those items in the U.S. as well as the nature of the expenditure. Even if reconciliations occurred as recommended, we may very well have upheld the classification as Supplies and Equipment because it was a judgment call. We do not disagree with classifying these expenditures as local costs. They were, indeed, incurred locally. We disagree with PW's presentation.

However, we agree with the recommendation and will implement the review on a monthly basis.



Recommendation No. 11

The local office should retain original supporting documents for three years after the end of the project for Pathfinder internal audit purposes and to achieve compliance with AID requirements.

For per diem distribution, a duplicate original may be required so that both Pathfinder and the training institution have adequate records.

Response

Management is aware of the record retention requirements and agrees. We take exception, however, to the notion that original documentation should or could exist for 100% of transactions. The reality is that while every prudent measure should be taken to ensure that original documentation is obtained and retained, it is sometimes not possible.

In this case, the auditors cite four instances of transactions that were supported by photocopies. We do not view this recommendation to be based upon a reasonable finding by the auditors when taken in the context of the total number of transactions examined. We ask that the auditors disclose the exception rate they experienced during their testing.

Recommendation No. 12

In order to strengthen controls and ensure the propriety of disbursements, Pathfinder HQ should establish an amount above which written approval must be obtained from Pathfinder US or Nairobi prior to disbursement.

Response

Management believes that the established procedures are adequate for control purposes given the size and nature of expenditures in Burundi. We do not deem it necessary to establish a specific approval limit.

Recommendation No. 13

The account allocation code on the payment voucher should be closely scrutinized by management prior to approving the payments.

Response

We agree and will implement the recommendation.

Recommendation No. 14

Per diem should be collected only by the trainee designated on the course roster, who should duly sign to acknowledge receipt of the per diem.



Response

We agree with the statement made in this recommendation.

However, management disagrees with the assertion made in PW's finding that controls over per diem distribution are weak. See our comments under Recommendation No. 1.2 of Section I. We believe that the auditors have failed to obtain a thorough understanding of the circumstances surrounding the distribution of the per diem payment to the three participants in question. Because of this, their finding is underdeveloped and is lacking consideration of all relevant evidential matter including representations by local management.

Recommendation No. 15

To render the controls imposed by timesheets operational, timesheets should be completed in full. Management should sign the timesheets to indicate review.

Response

We agree and will implement the recommendation immediately.

Recommendation No. 16

Procurement files must contain clear evidence for the basis of selection in order to demonstrate the reasonableness of the expenditure under the cooperative agreement.

Response

We agree and will implement the recommendation immediately. We point out that this issue is addressed in our Procurement Policy and Procedure.

Recommendation No. 17

Inventory records should be updated and maintained on a current basis.

Response

We agree and will implement the recommendation as soon as possible.

Recommendation No. 18

To protect Pathfinder and USAID interests, Pathfinder management should evaluate the feasibility of insurance in light of the cost to the organization of replacing assets procured under the cooperative agreement from its own resources.

Response

We agree with the recommendation. Our local representative is currently researching the availability and cost of insurance on all non-expendable property so an informed decision can be made.



Recommendation No. 19

The SF 269 should be completed according to the instructions on the reverse of the form. Columns "a" through "F" should be completed for each line item in the cooperative agreement budget as approved by USAID. (See instructions to form, item 10). This will provide USAID project management with the information needed to "administratively approve" the SF 269 as well as to monitor the financial status of the project.

Response

See our response to Recommendation No. 3 in Section I of this response.

Recommendation No. 20

The quarterly program performance report should include financial information as described in Attachment 1 to the cooperative agreement. Information reported should include for each budget line item:

- * Budgeted amount
- * Current period expenditures, by month
- * Cumulative expenditures
- * Estimated expenditures for the following period
- * Estimated expenditures through the PACD.

Analysis and explanation of cost overruns or high unit costs should be provided as appropriate.

Response

Management agrees with the finding and recommendation. This has been an oversight of this office and we will comply with the requirement effective with the quarterly report for the period ended September 30, 1991.

Recommendation No. 21

The cooperative agreement budget represents the financial plan for the project, the total value of which has been committed by USAID. The budget should be exclusive of all unallowable costs as defined in OMB Circular A-122. Pathfinder should review the budget and process whatever modifications are necessary to remove unallowable costs.

Response

We agree with the auditors finding and recommendation. The inclusion of unallowable costs totalling \$1,371 in the budget for Year 2 of the cooperative agreement was an error and should be removed. These costs represent an allowance for business meals and entertainment which Pathfinder regards as an ordinary and necessary cost of doing business and in practice covers them with its private resources. These costs are never charged to the U.S. Government. Our controls over their identification and segregation are strong.



61



Recommendation No. 22

Pathfinder should improve its non-expendable records to achieve compliance with USAID requirements and to improve management information controls. (See Section 3.3.5, Recommendation No 15)

Response

We agree with the recommendation and will implement improvements as soon as possible.

Recommendation No. 23

Handclasp markings should be affixed to all property procured with USAID funds.

Response

We disagree with the recommendation.

Please refer to Section VII of Attachment 1 to the cooperative agreement. The standard provision entitled "Title To and Use of Property (Grantee Title)" applies to this agreement.

Recommendation No. 24

Specific financial management responsibilities, particularly with respect to approving, recording, and reporting local currency disbursements, should be documented. This will ensure that staff responsible for project financial management are fully cognizant of their respective roles.

Response

We agree with the recommendation and will document responsibilities as soon as is practical.

Recommendation No. 25

A schedule of regular accounting support visits to the Burundi office should be implemented. Burundi office management should be provided with training in basic financial management techniques. All of the Burundi office staff should be trained in Pathfinder's documented procedures.

Response

We agree with the recommendation and have implemented necessary action.

In conclusion, we find the size of the audit report, 36 pages and 25 recommendations, to be disproportionate to the total dollars audited as well as the costs questioned and purportedly unsupported. As a result, a significant amount of time, and therefore expense, by USAID and Pathfinder will accrue in responding to this draft and the final report to follow. We

-62-



believe this situation could have been avoided had Price Waterhouse (a) exercised a reasonable degree of professional judgment in determining what are reportable conditions, (b) conducted appropriate and adequate follow up procedures on their findings and the representations made to them by our local staff, and (c) followed appropriate reporting protocol which entails discussing all audit findings prior to inclusion in a report and reviewing the draft report with Pathfinder management for our comments prior to release of the document to USAID.

With regard to the reporting process, we took exception to the procedure described by Price Waterhouse as being established by the Office of the Inspector General in Washington, D.C. while they were conducting their field work. Our Director of Accounting, Joseph Zani, met with the engagement partner and senior members of the PW audit team in Nairobi on April 30, 1991. At that meeting, PW informed us that RIG/A/N had agreed to allow PW to release a copy of the draft report to Pathfinder at the same time it was issued to them. Contrary to this representation, we were never provided a copy of the draft report by PW. Irrespective of PW's failure to supply us with a draft report, we feel strongly that the auditee should see the draft report prior to USAID. We believe such a process would be more cost effective and provide for the resolution of any erroneous findings or presentations between auditor and auditee prior to release to the cognizant agency.

We appreciate USAID/RIG/A/N forwarding a copy of the draft audit report to our Nairobi office. We look forward to receiving your reaction to our responses and to the issues we have raised concerning the auditor's findings and reporting protocol established by the Inspector General's office.

Of course if there are any questions about this letter we will be glad to answer them.

Sincerely,

Carol L. Gibbs
Vice President, Finance &
Administration

cc: Ayo Ajayi, M.D., Regional Vice President for Subsahara Africa, Nairobi
Marcelle Chevallier, Resident Advisor, Burundi
Yirga Alem, Regional Financial Officer, Nairobi
Joseph A. Zani, Director of Accounting



63

REPORT DISTRIBUTION

American Ambassador to Burundi	1
USAID Representative, Burundi	5
AA/AFR	2
AFR/EA/RB	1
AFR/CONT	1
XA/PR	1
LEG	1
GC	1
AA/FA	1
AA/OPS	1
FA/FM	1
POL/CDIE/DI	1
FA/MCS	1
REDSO/ESA	1
REDSO/RFMC	1
REDSO/Library	1
IG	1
AIG/A	1
D/AIG/A	1
IG/A/PPO	2
IG/LC	1
IG/RM/C&R	5
AIG/I	1
RIG/I/N	1
IG/A/PSA	1
IG/A/FA	1
RIG/A/C	1
RIG/A/D	1
RAO/M	1
RIG/A/S	1
RIG/A/T	1

64