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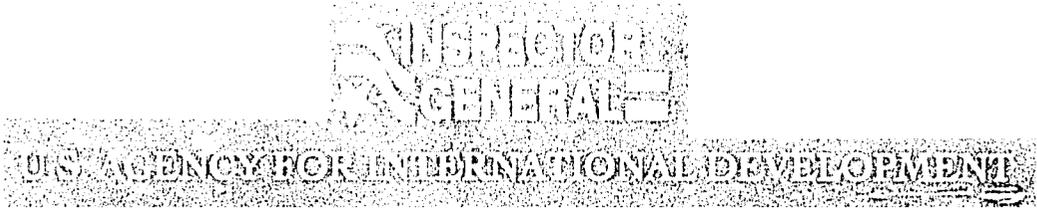
**Regional Inspector General for Audit  
Singapore**

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**AUDIT OF  
NATION BUILDERS ASSOCIATION  
SRI LANKA**

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**Audit Report No. 5-383-93-05-N  
December 9, 1992**





U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

December 9, 1992

**TO:** Richard M. Brown, Mission Director  
USAID/Sri Lanka

**FROM:**   
Alfred M. Clavelli, Acting RIG/A/Singapore

**SUBJECT:** Audit of Nation Builders Association - Sri Lanka  
Audit Report No. 5-383-93-05-N

The accounting firm of Coopers and Lybrand, Singapore, performed a financial audit of USAID/Sri Lanka's grants (Grant Nos. 26, 35, 13) to Nation Builders Association - Sri Lanka (NBA). Five copies of the audit report are enclosed for your action.

USAID/Sri Lanka awarded three grants to NBA under the Private Voluntary Organization Co-financing I and II Projects on programs relating to reforestation, water management, and irrigation. The goals of these programs were to environmentally conserve forests and to raise living standards of farmers. Activities undertaken by NBA include tree planting through reforestation, organizing and training farmers, and introducing control structures for irrigation schemes. The period covered by the audit for each grant is noted on page 5 of the audit report. During this period, NBA reported that \$1,489,728 was made available and \$1,487,125 was expended under the grants.

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

The auditors reported that NBA's Fund Accountability Statement presents fairly the receipts and expenditures under the USAID/Sri Lanka grants, except for \$123,052 in questioned costs and \$42,552 in ineligible and unsupported costs relating to NBA's

matching contributions. Two material internal control weaknesses, and several instances of noncompliance were noted. Other than these matters, NBA complied, in all material respects, with applicable laws, regulations, and agreement terms.

NBA officials generally agreed with the auditors' findings and recommendations. Their comments are summarized under each individual finding in the report and are set out in full as Appendix C.

The Coopers and Lybrand report contains nine findings and recommendations on which USAID/Sri Lanka should ensure that necessary action is taken. We are making three recommendations to be included in the Inspector General's recommendation follow-up system.

**Recommendation No. 1:** We recommend that USAID/Sri Lanka resolve the \$123,052 in questioned costs (\$121,862 unsupported and \$1,190 ineligible costs), and recover from Nation Builders Association any costs not allowable under the grants.

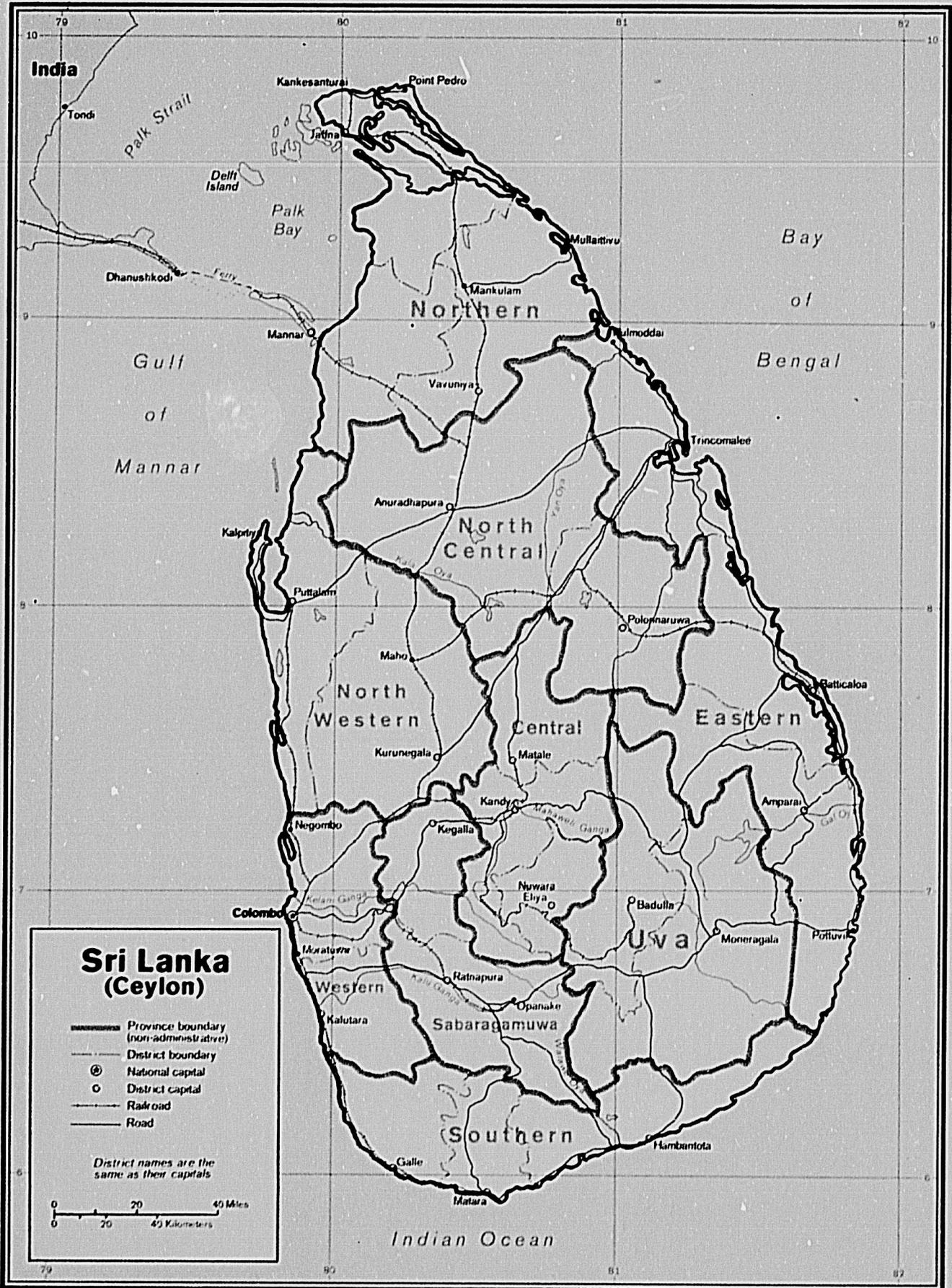
**Recommendation No. 2:** We recommend that USAID/Sri Lanka verifies that Nation Builders Association establishes and implements: (a) an adequate accounting system to substantiate all advances, receipts, charges, and matching contributions to the grants, including using separate bank accounts for depositing USAID/Sri Lanka funds; and (b) a system to ensure that reporting requirements of the grants are met.

**Recommendation No. 3:** We recommend that USAID/Sri Lanka verify that Nation Builders Association has met its matching contributions.

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

Attachment: a/s



AUDIT OF  
NATION BUILDERS ASSOCIATION  
PERTAINING TO ITS PVO CO-FINANCING GRANTS WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN SRI LANKA  
\*\*\*\*\*

*Performed and Prepared*

*by*

*Coopers & Lybrand  
Singapore*

*&*

*Coopers & Lybrand  
Sri Lanka*

**AUDIT OF  
NATION BUILDERS ASSOCIATION  
PERTAINING TO ITS PVO CO-FINANCING GRANTS WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN SRI LANKA**

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**INDEPENDENT AUDITORS' REPORT**

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your reference  
our reference**AS/KYT/NBA****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****22 September 1992**

Dear Mr Durnil

This report presents the results of our audit of Nation Builders Association ("NBA") pertaining to its PVO Co-Financing Grants with the United States Agency for International Development, Sri Lanka ("USAID/SL"), and in respect of the following periods for each grant:

**PVO Co-Financing I Project**Grant No 26 - February 1, 1985 to July 31, 1989  
Grant No 35 - October 1, 1986 to August 29, 1989**PVO Co-Financing II Project**

Grant No 13 - October 1, 1988 to December 31, 1991

**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 \$ 510 per annum (Source: Asiaweek, July 17, 1992).

Despite the fact that agriculture is by far the major component of the country's Gross National Product, the country is still not self-sufficient in basic foodstuffs. In an attempt to boost local agricultural production and enhance the income of those living in rural areas, both Private Voluntary Organizations ("PVOs") and government institutions have been working together on a variety of socio-economic based initiatives and projects. One such PVO involved in these projects is NBA.



## resident partners

Tan Swan Jeng  
Reggie M. Thein  
Jonathan H. F. Ou  
Khoo Kum Wing  
Chew Kia Ngee  
Chan Kef Teck  
Noris C G Ong  
David G Compton  
Phillip E S Tan  
Michael G Gray  
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Leong Yit Siang  
Quek Soo Tat  
Betty Khoo  
Chey Chor War

## directors

D Michael Fleming  
Andrew Jackomos  
Joyce Tan  
David K H Toh

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

NBA - The Organization and its Programs

NBA is a non-governmental, non-political, non-profit development organization, incorporated by an Act of Parliament, and is an approved charity which participates in the integrated development of the rural sector. It is particularly active in promoting schemes for the protection of land and water resources in the island through the direct participation of people. Captioned photographs of one of these activities, PVO Co-financing I Project, Grant No 26, have been included on pages 2 to 4 of this report.

The birth of NBA can be traced back to 1963 when a group of university students and staff decided to devote their energies for social welfare during vacations. By 1968 it grew to such an extent that it became necessary to register it under the Companies Ordinance. Ten years later its Memorandum and Articles of Association were published and in 1982 it was incorporated by statute. It is today assisted largely by professional persons of varied disciplines and backgrounds that form the Board of Governors and the Executive Committee.



A. Farmers tending to the saplings in one of NBA's nurseries

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

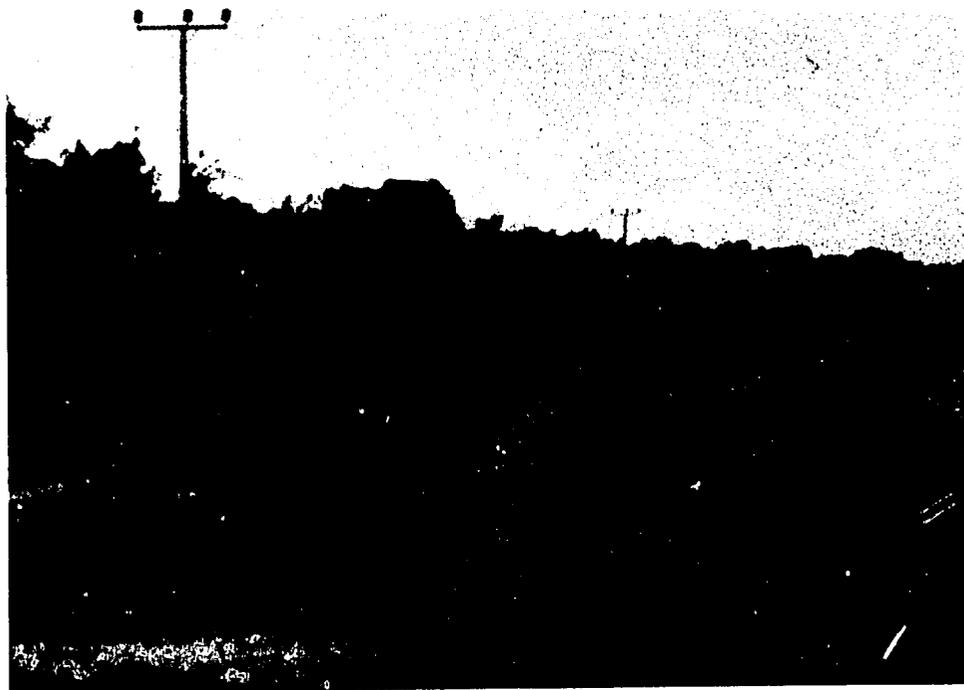


B. Transportation of 6 to 10 month old plants from the nurseries to the planting lots.



C. Removing all unnecessary vegetation in the planting lots.

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



D. Final product of the reforestation along the Minipe Right Bank Transbasin Canal.

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

Audit Objectives and Scope of Work

We have conducted a financial audit of NBA's Fund Accountability Statements as they relate to two grants received under the PVO Co-Financing I Project, and one grant received under the PVO Co-Financing II Project, for the following periods:

**PVO Co-Financing I Project**

Grant No 26 February 1, 1985 to July 31, 1989  
Grant No 35 October 1, 1986 to August 29, 1989

**PVO Co-Financing II Project**

Grant No 13 October 1, 1988 to December 31, 1991

The Fund Accountability Statement comprises the Receipts and Expenditure Statement for each grant for the periods outlined above, as well as a Consolidated Statement and the notes thereon. The results of our work are reflected in the accompanying Independent Auditors' Report on the:

- a) Consolidated Fund Accountability Statement and the Fund Accountability Statements of each Grant;
- b) System of Internal Control; and
- c) Compliance with Agreement Terms, Applicable Laws and Regulations.

The objectives of our work were to :

- a) Determine whether the Consolidated Fund Accountability Statement and the Fund Accountability Statement of each Grant for NBA presents fairly the receipts, expenditures and closing balances of NBA as they pertain to grants received under the Co-Financing Projects, as well as NBA's own costs claimed as contributions to these grants, for the audit periods noted above and in accordance with the terms of the Grant Agreements;
- b) Report on the organization's system of internal controls; and
- c) Report on the organization's compliance with applicable laws, regulations, agreement terms, binding policies and procedures.

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

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/SL, NBA and USAID Regional Inspector General for Audit/Singapore ("RIG/A/S") officials;
- b) Reviewing the appropriate grant agreements and related amendments, OMB circulars, AID handbook regulations, prior period audit reports on NBA's financial statements, correspondence and minutes of meetings between USAID/SL and NBA, as well as project progress reports maintained by both NBA and USAID/SL;
- c) Obtaining an understanding of the accounting, administrative and internal control systems of NBA using questionnaires, interviews, flowcharts and narrative descriptions;
- d) Devising and performing appropriate tests on the transactions recorded in the Fund Accountability Statements;
- 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 NBA's management to ensure compliance with applicable laws, regulations and agreement terms.

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

Audit Results

a) Opinion on the Fund Accountability Statements

In respect of the Fund Accountability Statements, the inadequacy of sufficient records at that time of our audit resulted in our inability to determine the allocability, allowability and reasonableness of a number of costs, totalling to approximately US\$165,604 (See appendix A.1 and B.1), analysed under each individual Grant as follows:

	<u>Rs</u>	<u>US\$ Equivalent</u>
Grant 13	1,713,161	45,071
Grant 26	1,241,542	57,082
Grant 35	1,982,893	63,451
Combined Grant	<u>4,937,596</u>	<u>165,604</u>

Except for the matters set out in the preceding paragraph, the Consolidated Fund Accountability Statement and the Fund Accountability Statements of Grants 13, 26 and 35 are fairly presented, in all material respects, in conformity with the basis of accounting described in note 1(b) to the Fund Accountability Statements.

b) System of Internal Controls

In accordance with Paragraph 19 of Chapter 5 of Government Auditing Standards, we limited our reliance on NBA'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 extended our substantive testing.

During the course of our audit, though, we noted certain matters involving the internal control structure and its operations that we considered to be reportable conditions. These items were also considered to be material weaknesses and have been detailed in pages 21 to 22 of our report.

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

c) Compliance with Agreement Terms, Applicable Laws and Regulations

The results of our testing of transactions and records selected disclosed material instances of non-compliance with agreement terms, applicable laws and regulations, the effects of which have not been corrected in the Fund Accountability Statements. The findings on non compliance are set out on pages 26 to 34 and Appendices A.1 to B.2

We considered these materials instances of non-compliance in forming our opinion on whether NBA's Fund Accountability Statements are presented fairly, in all material respects, in conformity with the basis of accounting described in note 1(b) to the Statements.

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

Total USAID/SL reimbursed costs questioned amounted to US\$123,052. (See Appendix A.1)

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

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

Comments on Findings and Recommendations

The management of NBA have principally agreed to our findings and recommendations on the internal control and non-compliance issues set out on pages 21 to 22 and 26 to 34 respectively. Their comments can be found on the relevant pages of our findings and in full in Appendix C.

Acknowledgements

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

Yours truly

*Coopers & Lybrand*

**REPORT ON THE**

**CONSOLIDATED FUND**

**ACCOUNTABILITY STATEMENT**

your reference  
our reference**A5/KYT/NBA**

**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**

**22 September 1992**

Dear Mr Durnil

**NATION BUILDERS ASSOCIATION**  
**PERTAINING TO ITS PVO CO-FINANCING GRANTS WITH THE**  
**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT**  
**IN SRI LANKA**

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

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1. We have audited the Fund Accountability Statements of Nation Builders Association ("NBA") pertaining to its PVO Co-Financing Grants with the United States Agency for International Development, Sri Lanka ("US AID/SL") and in respect of the following periods;  
  
**PVO Co-Financing I Project**  
  
Grant No 26 - February 1, 1985 to July 31, 1989  
Grant No 35 - October 1, 1986 to August 29, 1989  
  
**PVO Co-Financing II Project**  
  
Grant No 13 - October 1, 1988 to December 31, 1991
2. As stated in Note 2 on page 17, the Fund Accountability Statements present only the transactions of NBA as they pertain to its Co-Financing Grants for the periods detailed above, and are not intended to present fairly the receipts and expenditure of NBA as a whole.
3. These Statements, comprising the Receipts and Expenditure Statement for each grant for the periods outlined above, as well as a Consolidated Statement and the notes thereon, and as set out on pages 13 to 17, are the responsibility of NBA's management. Our responsibility is to express an opinion on the Statements based on our audit.



## resident partners

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**NATION BUILDERS ASSOCIATION  
PERTAINING TO ITS PVO CO-FINANCING GRANTS WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN SRI LANKA**

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

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4. As described in note 1(b) to the Fund Accountability Statements, the Statements are prepared on a cash receipts and disbursement basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.
5. 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 whether the Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures 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.
6. In respect of the Fund Accountability Statements, the inadequacy of sufficient records at that time of our audit resulted in our inability to determine the allocability, allowability and reasonableness of a number of costs, totalling to approximately US\$165,604 (Rs 4,937,596) (See appendix A.1 and B.1) analysed under each individual Grant as follows:

	<u>Rs</u>	<u>US\$ Equivalent</u>
Grant 13	1,713,161	45,071
Grant 26	1,241,542	57,082
Grant 35	1,982,893	63,451
Combined Grants	<u>4,937,596</u>	<u>165,604</u>

7. Except for the matters set out in paragraph 6, the Consolidated Fund Accountability Statement and the Fund Accountability Statements of Grants 13, 26 and 35 are fairly presented, in all material respects, in conformity with the basis of accounting described in note 1(b) to the Fund Accountability Statements.

**NATION BUILDERS ASSOCIATION  
PERTAINING TO ITS PVO CO-FINANCING GRANTS WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN SRI LANKA**

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

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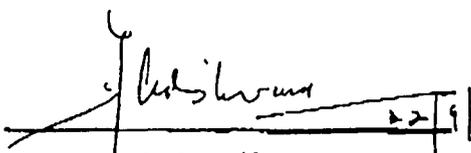
8. This report is intended solely for the use of the Agency for International Development and NBA and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the USAID Regional Inspector General for Audit, Singapore,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

  
COOPERS & LYBRAND

**Certified Public Accountants**

**NATION BUILDERS ASSOCIATION  
CONSOLIDATED RECEIPTS AND EXPENDITURE STATEMENT  
FOR THE PERIOD FROM FEBRUARY 1, 1985 TO DECEMBER 31, 1991  
PERTAINING TO ITS PVO CO-FINANCING GRANTS WITH USAID/SL**

	USAID/SL Contributions Rs	NBA Contributions Rs	Total Contributions Rs	US \$ Equivalent
<b>RECEIPTS</b>				
Net funds contributed	13,531,120	28,576,699	42,107,821	1,489,728
<b>EXPENDITURE</b>				
Overseas training	595,410	Nil	595,417	17,342
Local training	700,920	5,100	706,023	20,630
Salaries and wages	1,249,000	1,526,270	2,775,270	82,097
Administration expenses	1,163,870	1,231,947	2,395,825	110,153
Capital expenditure	243,490	38,245	281,739	8,075
Transport	499,510	842	500,357	14,357
Planting	3,929,860	1,570,458	5,500,324	252,888
Maintenance	3,617,300	24,057,530	27,674,836	926,188
Evaluation and audit	296,760	Nil	296,760	8,782
Overhead allowance	298,640	45,475	344,120	9,646
Opening of fire gaps	482,790	100,832	583,623	26,833
Video film	70,000	Nil	70,000	2,239
Afforestation	300,000	Nil	300,000	7,895
	<u>13,447,590</u>	<u>28,576,699</u>	<u>42,024,294</u>	<u>1,487,125</u>
Surplus to be refunded	83,527	-	83,527	2,603

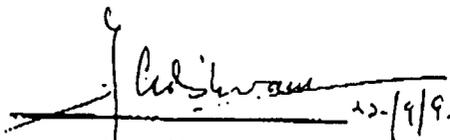
  
 M B Adikaran  
 NBA CHAIRMAN & EXECUTIVE DIRECTOR

The notes on page 17 form part of these statements

**NATION BUILDERS ASSOCIATION**

**PVO CO-FINANCING I PROJECT, GRANT NO 26  
RECEIPTS AND EXPENDITURE STATEMENT  
FOR THE PERIOD FROM FEBRUARY 1, 1985 TO JULY 31, 1989**

	USAID/SL Contributions Rs -----	NBA Contributions Rs -----	Total Contributions Rs -----	US \$ Equivalent -----
<b>RECEIPTS</b>				
Net funds contributed	9,214,442	3,877,596	13,092,038	601,932
<b>EXPENDITURE</b>				
Planting	3,929,866	1,570,458	5,500,324	252,888
Administration expenses	1,163,878	1,231,947	2,395,825	110,153
Maintenance	3,617,306	974,359	4,591,665	211,111
Opening of fire gaps	482,791	100,832	583,623	26,833
	<u>9,193,841</u>	<u>3,877,596</u>	<u>13,071,437</u>	<u>600,985</u>
Surplus to be refunded	20,601 =====	- =====	20,601 =====	947 =====

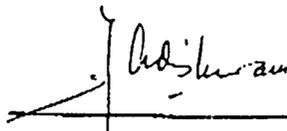
  
 M B ADIKARAM  
 NBA CHAIRMAN & EXECUTIVE DIRECTOR

The notes on page 17 form part of these statements

**NATION BUILDERS ASSOCIATION**

**PVO CO-FINANCING I PROJECT, GRANT NO 35  
RECEIPTS AND EXPENDITURE STATEMENT  
FOR THE PERIOD FROM DECEMBER 31, 1986 TO AUGUST 29, 1989**

	USAID/SL Contributions Rs	NBA Contributions Rs	Total Contributions Rs	US \$ Equivalent
	-----	-----	-----	-----
<b>RECEIPTS</b>				
Net funds contributed	1,815,212	20,117,874	21,933,086	701,410
<b>EXPENDITURE</b>				
Overseas training	295,417	Nil	295,417	9,447
Local training	357,075	5,100	362,175	11,582
Salaries & wages	529,000	1,071,370	1,600,370	51,179
Transport	209,234	842	210,076	6,718
Evaluation and audit	171,760	Nil	171,760	5,493
Overhead allowance	104,232	Nil	104,232	3,333
Capital expenditure	78,494	38,245	116,739	3,733
Video film	70,000	Nil	70,000	2,239
General maintenance	Nil	19,002,317	19,002,317	607,686
	<u>1,815,212</u>	<u>20,117,874</u>	<u>21,933,086</u>	<u>701,410</u>
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 22/9/92  
**N. B. ADIKARAM**

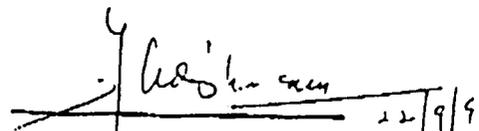
**NBA CHAIRMAN & EXECUTIVE DIRECTOR**

The notes on page 17 form part of these statements

**NATION BUILDERS ASSOCIATION**

**PVO CO-FINANCING I PROJECT, GRANT NO 13  
RECEIPTS AND EXPENDITURE STATEMENT  
FOR THE PERIOD FROM OCTOBER 1, 1988 TO DECEMBER 31, 1991**

	USAID/SL Contributions Rs -----	NBA Contributions Rs -----	Total Contributions Rs -----	US \$ Equivalent -----
<b>RECEIPTS</b>				
Net funds contributed	2,501,468	4,581,229	7,082,697	186,386
<b>EXPENDITURE</b>				
Salaries and wages	720,000	454,900	1,174,900	30,918
Local training	343,848	Nil	343,848	9,048
Overseas training	300,000	Nil	300,000	7,895
Afforestation	300,000	Nil	300,000	7,895
Transport	290,281	Nil	290,281	7,639
Capital expenditure	165,000	Nil	165,000	4,342
Evaluation and audit	125,000	Nil	125,000	3,289
Overhead allowance	194,413	45,475	239,888	6,313
General maintenance	Nil	4,080,854	4,080,854	107,391
	<u>2,438,542</u>	<u>4,581,229</u>	<u>7,019,771</u>	<u>184,730</u>
Surplus to be refunded	62,926 =====	- =====	62,926 =====	1,656 =====

  
 M/S ADIKARAM  
 NBA (CHAIRMAN & EXECUTIVE DIRECTOR)

The notes on page 17 form part of these statements

**NATION BUILDERS ASSOCIATION**

**Notes to the Fund Accountability Statements**

**1. Significant Accounting Policies**

- (a) The Fund Accountability Statements, expressed in Sri Lankan Rupees, is prepared in accordance with the historical cost convention. Sri Lankan rupee amounts have been translated to their US dollar equivalent at the average rate exchange during the statement period.
- (b) Receipts and expenditure relate to amounts received and paid respectively in cash or in kind. The funds surplus for the period represents the closing cash balances.

**2 Component unit of NBA**

The Fund Accountability Statements presents only the transactions of NBA as they pertain to its Grants received from USAID/SL under the PVO Co-Financing I and II Projects and is not intended to present fairly the receipts and expenditure of NBA as a whole.

**REPORT ON THE  
SYSTEM OF  
INTERNAL CONTROLS**

your reference  
our reference**A5/KYT/NBA**

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

22 September 1992

Dear Mr Durnil

**NATION BUILDERS ASSOCIATION  
PERTAINING TO ITS PVO CO-FINANCING GRANTS WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN SRI LANKA**

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

1. We have audited the Fund Accountability Statements of Nation Builders Association ("NBA") pertaining to PVO Co-Financing Grants with the United States Agency for International Development, Sri Lanka ("USAID/SL"), and in respect of the following periods:  
  
**PVO Co-Financing I Project**  
Grant No 26 - February 1, 1985 to July 31, 1989  
Grant No 35 - October 1, 1986 to August 29, 1989  
  
**PVO Co-Financing II Project**  
Grant No 13 - October 1, 1988 to December 31, 1991
2. These statements, comprising the Receipts and Expenditure Statement for each grant for the periods outlined above, as well as a Consolidated Statement and the notes thereon, are set out on pages 13 to 17, and we have issued our report thereon dated 22 September 1992.
3. 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.
4. In planning and performing our audit of NBA, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure of NBA as a whole.

18



resident partners  
Tan Swan Jeng  
Reggie M Thein  
Jonathan H E Ou  
Khoo Kum Wing  
Chew Kia Hgee  
Chan Ket Teck  
Norris C G Ong  
David G Compton  
Philip E S Tan  
Michael G Gray  
Chew Teck Soar  
Foo Tiang Sooi

Ernest I P Seow  
Jimmy K H Seet  
Lawrence K S Seet  
Edwin T S Khoo  
Leong Yit Siong  
Quek Soo Tat  
Betty Khoo  
Chey Chor War

directors  
D Michael Fleming  
Andrew Jackomos  
Joyce Tan  
David K H Toh

**NATION BUILDERS ASSOCIATION  
PERTAINING TO ITS PVO CO-FINANCING GRANTS  
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN SRI LANKA**

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

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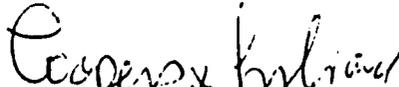
5. The management of NBA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related cost of internal control structure, policies and procedures. The objectives 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 financial 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 currently considered adequate may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.
6. For the purpose of this report, we have classified the significant internal control structure, policies and procedures into the following categories :
  - Accounting Controls;
    - o Cash receipts
    - o Cash disbursements
    - o Payroll
    - o General ledger
  - Administrative controls;
    - o Cost allocation and allowability
    - o Monitoring
    - o Reporting
7. For all the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures, determined whether they are effective in operation, and we assessed control risk.
8. 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 Statements.
9. 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, would adversely affect the organization's ability to record, process, summarize, and report financial data, consistent with the assertions of management in the Fund Accountability Statements.

**NATION BUILDERS ASSOCIATION  
PERTAINING TO ITS PVO CO-FINANCING GRANTS  
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN SRI LANKA**

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

---

10. Our audit revealed the following reportable conditions, which are described in detail on pages 21 and 22:
- a) Physical verifications of non expendable property were not carried out; and
  - b) Bank reconciliations were not reviewed and approved.
11. 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 Statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned tasks.
12. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we consider that the reportable conditions annotated as (a) and (b) in the paragraph 10 above are material weaknesses.
13. This report is intended solely for the use of the Agency for International Development and NBA 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**

NATION BUILDERS ASSOCIATION  
SCHEDULE OF REPORTABLE CONDITIONS  
-----

(A) PHYSICAL VERIFICATION OF NON EXPENDABLE PROPERTIES NOT CARRIED OUT

Condition

NBA does not have a formal procedure for the physical verification of non expendable properties.

Criteria

Sound accounting practice requires non expendable properties to be periodically verified.

Effect

The non-existence of such a procedure for physical verification of non expendable properties may result in NBA not being able to effectively control and monitor its non expendable properties and therefore create the possibility of a loss of these properties by misfeasance cause.

Cause

NBA did not recognize the need for such a procedure.

Recommendation

We recommend that a procedure be set for non expendable properties to be counted periodically. The results should then be reconciled to the non expendable properties register to ensure that the register are kept up to date. Differences disclosed by the reconciliation should be investigated before any adjustments are made. The reconciliation and investigations of differences should be performed or checked by individuals independent of those who:

- o update the non expendable properties register
- o maintain the general ledger control accounts

The results of the reconciliations and investigation of differences should be reviewed and approved by a responsible official.

Management Comments

Agree with finding and management will implement auditors' recommendation.

NATION BUILDERS ASSOCIATION  
SCHEDULE OF REPORTABLE CONDITIONS

-----

(B) BANK RECONCILIATIONS NOT REVIEWED AND APPROVED

Condition

Monthly bank reconciliations prepared are not independently reviewed by a responsible official

Criteria

Sound accounting practice requires monthly bank reconciliations to be reviewed.

Effect

This lack of an independent check may result in errors and irregularities not being detected promptly, and could cause loss to NBA.

Cause

NBA did not recognize the need for such a review.

Recommendation

We recommend that a responsible official reviews the monthly bank reconciliations and initials on the reconciliations as evidence of his/her check. Prompt action should then be taken to rectify any errors or irregularities.

Management Comments

Agree with finding and management will implement auditors' recommendation.

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

your reference  
our reference**A5/KYT/NBA**

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

**22 September 1992****Dear Mr Duril**

**NATION BUILDERS ASSOCIATION  
PERTAINING TO ITS PVO CO-FINANCING GRANTS WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN SRI LANKA**

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

1. We have audited the Fund Accountability Statements of Nation Builders Association ("NBA") pertaining to PVO Co-Financing Grants with the United States Agency for International Development, Sri Lanka ("USAID/SL"), and in respect of the following periods :  
  
**PVO Co-Financing I Project**  
Grant No 26 - February 1, 1985 to July 31, 1989  
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**PVO Co-Financing II Project**  
Grant No 13 - October 1, 1988 to December 31, 1991
2. These Statements, comprising the Receipts and Expenditure Statement for each grant for the periods outlined above, as well as a Consolidated Statement and the notes thereon, are set out on pages 13 to 17, and we have issued our report thereon dated 22 September 1992
3. 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.
4. Compliance with laws, regulations, contracts, grants provisions, or binding policies and procedures applicable to NBA is the responsibility of NBA's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of NBA's compliance with certain of those provisions. However, our objective was not to provide an opinion on compliance with such provisions.

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## resident partners

Tan Swan Jeng      Nons C G Ong  
Reggie M Thein     David G Compton  
Jonathan H E Ou    Phillip E S Tan  
Khoo Kum Wing     Michael G Gray  
Chew Kia Ngee     Chew Teck Sour  
Chan Ket Teck      Foo Tiang Seng

Ernest T P Seow     Betty Khoo  
Jimmy K H Seet     Chey Chor War  
Lawrence K S Seet  
Edwin T S Khoo  
Leong Yil Siang  
Quek Soo Tat

## directors

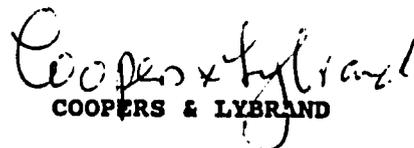
D Michael Fleming  
Andrew Jackomos  
Joyce Tan  
David K H Toh

**NATION BUILDERS ASSOCIATION  
PERTAINING TO ITS PVS CO-FINANCING GRANTS  
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN SRI LANKA**

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

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5. Material instances of non-compliance are violations of laws, regulations, contract and grant provisions, or binding policies and procedures that cause us to conclude that the aggregation of misstatements resulting from those violations is material to the Fund Accountability Statements. The results of our testing of transactions and records selected disclosed material instances of non-compliance, the effects of which have not been corrected in the Fund Accountability Statements, and they are set out in summary on page 25 and in detail on pages 26 to 34 and Appendices A.1 to B.2.
6. We considered these material instances of non-compliance in forming our opinion on whether NBA's Fund Accountability Statements are presented fairly, in all material respects, in conformity with the basis of accounting described in note (b) to the Statements and this report is not considered to have affected our report dated 1 September 1992 on those statements.
7. Except as described in paragraph 5 above, the results of our test of compliance indicate that with respect to the items tested, NBA complied, in all material respects, with the provisions referred to above. With respect to items not tested, nothing came to our attention that caused us to believe that NBA had not complied, in all material respects, with those provisions.
8. This report is intended solely for the use of the Agency for International Development and NBA 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**

**NATION BUILDERS ASSOCIATION**

**SUMMARY OF AUDIT FINDINGS ON NON COMPLIANCE ISSUES**

- 1 NBA has not adequately maintained sufficient and proper accounting records for Grants 13, 26 and 35.
- 2 Inadequate maintenance of separate bank accounts.
- 3 NBA has not attained its co-financing contributions.
- 4 NBA has failed to adhere to a number of reporting and monitoring provisions required by the agreements.
- 5 Copies of annual audit reports have not been provided to USAID/SL.
- 6 There were additional questioned costs, not included above, amounting to US\$31,417.
- 7 Failure to comply with statutory requirements.

NATION BUILDERS ASSOCIATION

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

---

1 INADEQUATE MAINTENANCE OF SUFFICIENT AND PROPER ACCOUNTING RECORDS

Condition

In respect of Grants 13, 26 & 35 NBA has not maintained sufficient and appropriate accounting records to generate complete statements of receipts and expenditure for all costs incurred as its contributions to respective projects. Additionally, they have also not been able to support the allocability, allowability and reasonableness of a number of those cost items claimed as expenditure related to those Grants.

This finding includes, the following specific deficiencies:

- o Separate ledger accounts for expenses reimbursed by USAID/SL contributions were not maintained;
- o USAID/SL reimbursed vouchers were mixed with those for costs financed by non-USAID/SL contributions;
- o Source documentation for a number of expense items could not be located.
- o Inadequate details on supporting documentation;
- o Accounting records were not maintained for co-financing contributions in kind.

Criteria

Mandatory Standard Provision 2(a) of AID Handbook 13, which forms part of the Grant Agreement, requires the grantee to maintain books, records, documents and other necessary evidence to sufficiently substantiate charges to grants. Moreover, the records must disclose that portion of project costs that are funded from other sources.

The above criteria also constitute requirements of sound accounting practice.

NATION BUILDERS ASSOCIATION

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

---

1 INADEQUATE MAINTENANCE OF SUFFICIENT AND PROPER ACCOUNTING RECORDS (CONT'D)

Effect

Sufficient and appropriate accounting records have not been maintained to generate and support the Fund Accountability Statements for Grants 13, 26 & 35.

As a result, we are unable to determine the reasonableness, allocability and allowability of Rs 3,945,010 (US \$ 133,833) in recorded expenditure. Refer Appendices A.1 and B.1, Item 1.

Cause

NBA's accounting system was not adequate to ensure full accountability for a significant portion of expenditure incurred under the Co-Financing Grants, primarily due to a lack of sufficient resources and a sufficient number of competent personnel.

Recommendation

NBA should take immediate steps to ensure that it maintains sufficient and proper accounting records to substantiate all receipts and payments of funds received under the Grants and should conduct regular reviews of these systems and its ability to comply with Grant provisions. NBA should also ensure that its recruitment process results in the employment of staff sufficiently qualified and experienced to ensure that its controls and accountability systems are both efficient and effective.

In addition, NBA should also review those questioned costs that have resulted from this finding, and as noted in Appendix A.1 and B.1, and resolve them with USAID/SL.

Management Comments

Agree that adequate records have not been kept and management will meet with USAID/SL to resolve the finding.

NATION BUILDERS ASSOCIATION

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

---

2 INADEQUATE MAINTENANCE OF SEPARATE BANK ACCOUNTS

Condition

We have noted that NBA maintains separate bank accounts for each grant. However, within each of these grants, NBA has co-mingled funds received from USAID/SL with its own funds.

Criteria

AID handbook 13, which forms part of the Grant agreement requires all funds provided by USAID/SL to be deposited into separate bank accounts and does not permit the co-mingling of these funds with funds from other sources.

Effect

The inadequate maintenance of separate bank accounts may result in NBA not being able to reconcile and support amounts received on a donor by donor basis.

Cause

NBA's management was unaware of the need to maintain a separate account for USAID/SL funds.

Recommendation

Whilst the extra administrative requirements are noted, the basis for requiring separate accounts to be maintained is considered to override this burden and therefore, NBA should ensure its adherence to the provisions of its Grant Agreements and deposit all USAID/SL funds into accounts specifically dedicated to those funds.

Management's comments

Agree that separate bank amounts have not been adequately maintained and management will meet with USAID/SL to resolve the finding.

**NATION BUILDERS ASSOCIATION**

**SCHEDULE OF FINDINGS OF NON-COMPLIANCE**

---

**3 CO-FINANCING CONTRIBUTIONS NOT ATTAINED**

**Condition**

NBA has not attained its co-financing contribution for Grant 26, details of which are set out below:

Budgeted Non-USAID/SL contributions	Rs	13,655,592
Less: Non-USAID/SL contributions corresponding to these budget lines.	Rs	3,877,596
		<hr/>
Shortfall	Rs	9,777,996
		<hr/>
US\$ Equivalent	US\$	<u>450,000</u>

**Criteria**

As Grant No 26 is provided under a Co-Financing Project, the Grantee is required to expend an agreed minimum of their own funds in return for an established level of USAID/SL assisted funding.

**Effect**

NBA has not attained its contribution as budgeted in the Grant Agreement by the above amount.

**Cause**

NBA's accounting and evaluation records do not facilitate proper budgetary monitoring to ensure its compliance with co-financing requirements.

**Recommendation**

We recommend that NBA establish and implement a formal system of budgetary monitoring to ensure that it complies with its co-financing obligations. It should meet with USAID/SL to determine how to resolve the shortfall in NBA's contributions as soon as possible. In future if it can not fulfill its co-financing obligations as provided in the Grant Agreement it should seek a waiver or an amendment from USAID/SL at an early stage.

**Management's comments**

Management was not aware of the strict need of having co-financing contributions recorded in the accounts. However, even though these contributions had not been recorded in the accounts, NBA submits that the expected contributions have been made.

**NATION BUILDERS ASSOCIATION**

**SCHEDULE OF FINDINGS OF NON-COMPLIANCE**

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4

**NON-ADHERENCE TO REPORTING AND MONITORING PROVISIONS**

**Condition**

NBA has not adhered to a number of specific reporting and monitoring provisions required by the Grant Agreements.

This finding includes the following specific deficiencies:

- o Project evaluation summaries have not been submitted to USAID/SL.
- o Claims for reimbursement under grant 13 were not submitted to USAID/SL on a monthly basis as established by the agreement.
- o NBA has failed to submit to USAID/SL a letter from the Mahaweli Economic Authority certifying the contribution made by the latter annually.
- o Quarterly progress reports had not been submitted to USAID/SL as required for some periods.
- o Federal cash advance status report was not completed and submitted to USAID/SL on a quarterly basis as required by AID Handbook 13 for Grants 13 and 35.
- o The baseline survey report was not completed and submitted to USAID/SL as required under Grant 35.

**Criteria**

Various provisions of the Grant Agreements require specific evaluation and reporting criterion to be completed on a timely and periodic basis, with copies of these reports provided to USAID/SL as well as to the Sri Lankan Ministries of Finance and Planning, and Plan Implementation.

**Effect**

The non-completion and non-submission of various progress reports may hinder an appropriate evaluation and monitoring of the progress of projects conducted under the Grant Agreements.

NATION BUILDERS ASSOCIATION

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

4 NON-ADHERENCE TO REPORTING AND MONITORING PROVISIONS (CONT'D)

Cause

NBA's management contend that heavy workloads, along with their interpretation of Grant Agreement provisions, have resulted in amendments to reporting contents and timing of lodgements. The non-provision of some reports to appropriate parties has resulted because of an oversight by management.

Recommendation

NBA should ensure its compliance with the provisions of the Grant Agreements. Where such compliance is not considered possible, NBA should request an amendment or waiver from USAID/SL to the respective agreements.

Management's comments

In respect to project evaluation summaries, management have sent alternative reports eg. evaluation reports, project completion reports and audit reports to USAID/SL. Management agree with all other conditions and will meet with USAID/SL to resolve this finding.

Auditors' Comments

NBA should meet with USAID/SL to ascertain if the alternative reports submitted are acceptable.

NATION BUILDERS ASSOCIATION

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

---

5 FAILURE TO SUBMIT ANNUAL AUDIT REPORTS

Condition

NBA has not carried out annual audits for grants 26 and 35. These grants were only audited at the end of the grant period but the audit was carried out by De Alwis Management Services (Kandy) which is not an independent firm of Public Accountants.

Criteria

The grant agreement requires grantees to provide USAID/SL with copies of their audit reports on an annual basis. Furthermore, the audit is required to be carried out by an independent firm of Public Accountants.

Effect

Funds provided under the grant agreement cannot be properly monitored due to the non-submission of annual audit reports to USAID/SL. Furthermore, the associated costs incurred by these audits which have been claimed and reimbursed (Appendix A.2), amounting to RS10,500, may not be allowable.

Cause

Annual audits have not been carried out for grants 26 and 35 due to an oversight by NBA's management.

Recommendation

NBA should ensure adherence to the provisions of the grant agreement and submit copies of annual audit reports to USAID/SL for review. Furthermore, these audits should be carried out by an independent firm of Public Accountants.

Management's comments

Agree with finding and will meet with USAID/SL to resolve this non-compliance.

NATION BUILDERS ASSOCIATION

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

---

6 OTHER QUESTIONED COSTS

Condition

During the course of our audit, we came across certain other costs which were considered "questioned costs". The details of these questioned costs, totalling Rs 982,386 (US \$ 31,417) are set out in Appendices A.2 and B.2.

Criteria

NBA should ensure its compliance with USAID/SL guidelines and grant requirements when making claims for costs. The basis of questionability of each item noted is set out in Appendices A.2 and B.2.

Effect

NBA has claimed costs totalling Rs 982,386 (US \$ 31,417) which may be potentially unallowable. Refer Appendices A.2 and B.2.

Cause

NBA have overlooked USAID/SL guidelines and grant requirements when making claims for costs.

Recommendation

It is recommended that both NBA and USAID/SL review the list of questioned costs set out in Appendices A.2 and B.2 resolve them and, if considered appropriate, determine which expenditure should be recovered by USAID/SL from NBA.

Management's comments

These costs were incurred for the purposes of the grant and care had been taken to ensure its reasonableness.

NATION BUILDERS ASSOCIATION

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

---

7

FAILURE TO COMPLY WITH STATUTORY REQUIREMENTS

Condition

NBA has failed to contribute to the employees provident and trust funds from 14 March 1991 for employees under grant 13.

Criteria

NBA has not complied with the provisions of the Employees Provident Fund ("EPF") Act No 15 of 1958 and Employees Trust Fund ("ETF") Act No 46 of 1980.

Effect

NBA is liable for the employers' contribution to EPF and ETF as well as the employees contribution which NBA failed to deduct from employee salaries.

Cause

NBA's management was notified of their liability by the Department of Labour only on 11 June 1992.

Recommendation

NBA should take steps to compute the outstanding EPF/ETF contributions and to comply with statutory requirements so as to avoid paying penalties.

Management's comments

Agree with finding and management has taken the necessary follow up action with the Department of Labour.

# APPENDICES

NATION BUILDERS ASSOCIATION  
 USAID/SL QUESTIONED COSTS AS TO  
 REASONABLENESS, ALLOCABILITY AND ALLOWABILITY  
 NON-COMPLIANCE ISSUES

Finding	Condition	Basis of Questionability	Grant No	Amount Rs	Equivalent US \$
Finding 1	Inadequate maintenance of sufficient and proper accounting records	Reasonableness, allowability & allocability cannot be determined.	26 35 13	1,241,542 990,307 1,258,261	57,082 31,680 33,100
				3,490,110	121,862
Finding 5	Annual audits not carried out by an independent firm of Public Accountants	Allowability breach of grant agreement	35	10,200	355
Finding 8	Other questions costs (refer Appendix A.2)		35	26,130	835
T O T A L				3,526,440	123,052

NATION BUILDERS ASSOCIATION  
 USAID/SL QUESTIONED COSTS AS TO  
 REASONABLENESS, ALLOCABILITY AND ALLOWABILITY  
 OTHER QUESTIONED COSTS

---

Line item	Payment Voucher No.	Condition	Basis of Questionability	Grant No	Amount Rs	Equivalent US \$
-----	-----	-----	-----	-----	-----	-----
<b><u>Finding 8</u></b>						
Evaluation	35/2/B6/A/1	The report for which expenditure incurred for was not received by NBA.	Reasonableness cannot be determined.	35	<u>26,130</u>	<u>835</u>

**NATION BUILDERS ASSOCIATION**  
**NBA CO-FINANCING QUESTIONED COSTS AS TO**  
**REASONABLENESS, ALLOCABILITY AND ALLOWABILITY**  
**NON-COMPLIANCE ISSUES**

---

Finding -----	Condition -----	Basis of Questionability -----	Grant No -----	Amount Rs -----	Equivalent US \$ -----
1. Finding 1	Inadequate maintenance of sufficient and proper accounting records.	Reasonableness, allowability & allocability cannot be ascertained.	13	454,900	11,971
3. Finding 8	Other questioned cost. (Refer Appendix B.2)		35	956,256	30,581
T O T A L				<u>1,411,156</u>	<u>42,552</u>

**NATION BUILDERS ASSOCIATION**  
**NBA CO-FINANCING QUESTIONED COSTS AS TO**  
**REASONABLENESS, ALLOCABILITY AND ALLOWABILITY**  
**OTHER QUESTIONED COSTS**

---

<u>Line item</u>	<u>Condition</u>	<u>Basis of Questionability</u>	<u>Grant No</u>	<u>Amount Rs</u>	<u>Equivalent US \$</u>
<b><u>Finding 8</u></b>					
Personnel	Co-financing contribution not within the grant period.	Allowability cannot be determined.	35	91,530	2,927
Personnel	Co-financing contribution valued at rates in excess of agreed rates.	Allowability cannot be determined.	35	864,726	27,654
<b>T O T A L</b>				<b>956,256</b>	<b>30,581</b>

**NATION BUILDERS ASSOCIATION**  
**BREAKDOWN OF USAID/SL QUESTIONED COSTS**

Appendix A.1, Item 1

Grant No. -----	Payment Voucher No. -----	Budget Line Item -----	Description -----	Amount RS -----
26	Entire Budget Line Item questioned	Administration expenses	Non-maintenance of personal records ie. appointment letters and authorised salary revision listing.	1,163,878
	18/1	Planting	No supporting documentation	45,322
	27/1	Planting	No supporting documentation	32,342
				1,241,542
35	Entire Budget Line Item questioned	Local training expenses	No procedures of maintaining attendance records for trainees.	357,075
	Entire Budget Line Item questioned	Salaries and wages	Non-maintenance of personal records	529,000
	Entire Budget Line Item questioned	Overhead allowance	Non-maintenance of personal records	104,232
				990,307

**NATION BUILDERS ASSOCIATION  
BREAKDOWN OF USAID/SL QUESTIONED COSTS**

Appendix A.1, Item 1 (cont'd)

Grant No. -----	Payment Voucher No. -----	Budget Line Item -----	Description -----	Amount RS -----
13	Entire budget line item questioned	Local training	No procedures of maintaining attendance records for trainees	343,848
	Entire budget line item	Salaries and wages	Non-maintenance of personal records	720,000
	Entire budget line item questioned	Overhead allowance	Non- maintenance personal records	194,413
				1,258,261

**NATION BUILDERS ASSOCIATION  
BREAKDOWN OF USAID/SL QUESTIONED COSTS**

Appendix B.1, Item 1

Grant No. -----	Payment Voucher No. -----	Budget Line Item -----	Description -----	Amount RS -----
13	Entire budget line item questioned	Salaries and wages	No supporting documentation	454,900

Coopers  
& Lybrand,  
Satchithananda,  
Pasupati & Co.

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a member firm of  
Coopers & Lybrand  
(International)

APPENDIX C1

Our reference

October 30, '92

Mr Kon Yin Tong  
Manager  
Coopers & Lybrand  
9 Penang Road  
#/ 12-00 Park Mall  
Singapore 0923  
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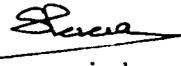
B Y C O U R I E R

Dear Mr Yin Tong

FINANCIAL AUDIT - NBA (US.AID)

Please find enclosed the Management Comments of NBA  
typed on their official letter heads, as requested, for  
incorporation to the Report.

Yours truly



Sriyani Perera (Miss.)

Enc  
-----

SP/mk/1:1:



partners Sany M Pasupati FCA, D C Wijesekera FCA, P D Rodrigo FCA, Sharmini Sivalingam FCA,  
Y Kanagasabai ACA, S Gajendran ACA, Sriyani Perera ACA.

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NATION BUILDERS ASSOCIATION  
New Town, Kundasele.

☎ 08 - 32332

Date..... 28th October, 1992.

APPENDIX C2

Your reference PDR/412/92

M/s Coopers & Lybrand,  
Chartered Accountants,  
45, Abdul Caffoor Mawatha,  
COLOMBO 3

Dear sirs,

USAID - PVO CO-FINANCING GRANTS : NO 26, 35 AND 13.

Reference your letter dated 14th September, 1992 and our reply dated 23rd September, 1992.

The amended comments and also the comments in respect of the items where further clarifications were sought by us are typed on letter heads and forwarded herewith as requested.

The delay in forwarding these documents is very much regretted. It was due to our having to verify certain facts at field level to finalise the comments.

Thanking you.

Yours faithfully,

  
N.B. Adikaram

Chairman & Executive Director.

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NATION BUILDERS ASSOCIATION  
New Town, Kundasale.

08 - 32332

Date 26th October, 1992.  
APPENDIX C3

MANAGEMENT COMMENTS OF NATION BUILDERS  
ASSOCIATION

REPORT ON THE SYSTEM OF INTERNAL CONTROLS

(B) Physical verification of non expendable property was not carried out.

MANAGEMENT COMMENTS

During the period under review, NBA had relatively few assets which were in constant use. Consequently, any item missing could have been easily observed. However, as the number of assets is now on the increase, a sub-committee of the Board of Governors had been entrusted with the physical verification of assets and up-dating the assets register. Whilst appreciating the recommendation made by the auditors, NBA has noted to conduct periodical verifications.

(C) Bank reconciliations were not reviewed and approved.

MANAGEMENT COMMENTS

The NBA's procedure has been to prepare the Bank reconciliations under the supervision of the Accountant. So far, we have not had any occasion of errors and irregularities. Nevertheless, the comments of the Auditors are thankfully noted for compliance.

Finding 1

NON-COMPLIANCE ITEMS - PART 1 GENERAL

1.  
Inadequate maintenance of sufficient and proper accounting records.

MANAGEMENT COMMENTS

We agree that the NBA has not been able to meet adequacy requirements strictly. The reasons for this are as follows:-

Separate Ledger Accounts.....

The practical situation was that the amount of expenditure claimed and the amount reimbursed were not always the same. The short fall, whatever, had to be met out of NBA funds. As a result the ledger account maintained for the project had to contain entries of NBA contributions as well.

Contd.....P/2:

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USAID/SL Reimbursed Vouchers.....

This condition had prevailed due to the practical circumstances explained above. When a payment was made to the field, it would usually go under one voucher and there was no possibility of splitting it into the USAID component and the NBA component because the amounts that would be reimbursed would be known only after the receipt of the reimbursement and all shortfalls in the reimbursements had to be met with the NBA funds.

Source Documentation....

Generally the NBA did have a practical difficulty in securing and keeping in safe custody source documentation for every payment because in certain expense items the need emanated from the field level and the office could not secure more basic documents than the certificate of a responsible official in charge of project implementation activities. Care was taken to ensure that such certification was available for each payment. Very often such certification was on the voucher itself.

Inadequate Details on Supporting Documents....

Generally, payments were made on the three responsible officers, namely approving, authorizing and certifying officers being satisfied about the propriety of the payment. This depended on the basic recommendation of the responsible officers in charge of project operations.

Accounting Records for Co-financing....

The NBA regrets the deficiency. At the same time, the NBA has to confess that the awareness of the strict need of having these contributions recorded in detail was relatively low at the time of implementation of these projects as they were the first experiences of the organization in handling such procedures. Even though the contributions had not been precisely detailed out, NBA has to submit that the expected contributions were made.

The Auditors' recommendation for staff recruitment is thankfully noted for guidance. With regard to the questioned Costs NBA wishes to discuss with the USAID.

Contd.....P/3:

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PART II (SPECIFIC ISSUES)

i) Line budget item - Administrative Expenses -  
Appendix A1 Item I - Rs. 1,163,878

The period subject to this audit was indeed the infancy of the NBA in so far as foreign funded project implementation was concerned. The personnel involved were those who participated in the NBA activities on a voluntary basis. They were not issued with letters of appointment because the NBA had no intention of taking over an employment responsibility, nor did the volunteers wish to have a legal claim on the NBA as its 'employees'. This relationship between the NBA and the volunteers was purely on mutual understanding and trust and not that of the employer and employee. During this period there was no statutory requirement of EPF contribution. With regard to the nature of 'authorized salary revision listing' the NBA had not given any indication to the volunteers that they were being paid a formal salary. What was paid to them was only an allowance to meet their basic needs. The main concern of the NBA and the volunteers was to achieve what had to be achieved under the projects, maintaining of course, the financial propriety in their respective roles. Under these conditions, the need for personal letters of appointment, stipulation of service conditions and salary structures etc. did not arise.

ii) Voucher No 18/1 Planting - Rs. 45,372.00 and Voucher  
No 27/1 Planting Rs. 32,342.00

These two payments actually related to the purchase of fertilizer under the first and second year's maintenance respectively of the 1986 plantation. The fertilizer was purchased from the Fertilizer Corporation which is a government concern. Payments were made to the Corporation by cheque and receipts obtained. Unfortunately the receipts appear to have got detached from the vouchers.

iii) Grant No 35 - Local Training Expenses Rs.357,075.00

The procedure adopted by the NBA with regard to the payment of local training expenses was for the project co-ordinator to gather the details of participants and then submit combined certificates for the total expenditure and then for the accountant to effect payment to respective recipients. The NBA acted on this certificate because the co-ordinator himself was one in the Managerial Team (Secretary Project Implementation) of the NBA. Now in retrospect, NBA has to admit that at the project implementation stage, it had not foreseen the strict need of these source documents because it had never had the experience of an audit of the present nature.

Contd....P/4:

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- v) Salaries and wages Rs. 52,700.00 and  
vi) Overhead allowance Rs. 10,232.00

These were the payments made to the Project Officers and Community Organizers. Our comment in Part II (i) above apply in these instances too.

- vii) Grant No 13 - Local Training Rs.343,848.00

Our comments in Part II (iii) above apply.

- ix) Salaries and Wages Rs. 720,000.00

Our comments in Part II (i) above apply.

- x) Overhead allowance Rs. 194,413.00

These costs relate to the allowances paid to the personnel. Our comments in Part II (i) apply in this instance too.

- xii) Grant No 13-Appendix B1 Item I-NBA Co-financing  
Questioned Costs - Salaries and Wages Rs.454,900/=

The estimated farmer contribution for maintaining the canal system during the project period was Rs.270,000.00, but the actual contribution they have made amounted to Rs.454,900.00. The computation of this amount is as follows:-

1988 October to 1989 December	- 2620 Man Days
1990 January to 1990 "	- 5548 "
1991 January to 1991 September	- 853 "
1991 October to 1992 January	- 77 "
Total	- 9098 =====

The total amount valued at the rate of Rs.50/= per man day is Rs.454,900.00. It will be observed that the actual farmer contribution has exceeded the estimated contribution.

We have been able to secure, after the receipt of the Auditor's letter of 21-09-1992 by which clarification sought was forwarded to us, some of the records maintained by the respective farmer organizations e.g. Lists of farmers who participated in Shramadana activities (labour donation). These documents are now available with the NBA.

However, the NBA regrets the fact that it had not compiled and preserved all the supporting documents, in connection with the co-financing component vide management comments under Finding 1 Part I - General - Accounting records for the co-financing.

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APPENDIX C7  
NATION BUILDERS ASSOCIATION  
New Town,  
Kundasale - Sri Lanka  
Telephone: 08-32332

Date: 26th October, 1992.

Finding 2

INADEQUATE MAINTENANCE OF SEPARATE  
-----BANK ACCOUNTS-----

MANAGEMENT COMMENTS

In this connection reference is requested to the management comments in Part I (General) under Finding 1.

The NBA was maintaining separate bank accounts for each project funded by the USAID. However, as mentioned in our earlier comments, there were numerous occasions where the balance available in the project Bank account was not sufficient to meet field payments as there were delays in reimbursements. In such situations, money was drawn from the NBA Account to meet the shortfall pending adjustments on receipt of reimbursements. The practical circumstances in making field payments necessitated adhoc arrangements of this nature. The NBA however, exercised sufficient care to avoid intermingling of funds between projects. All payments under each project was absolutely within the scope of the respective Bank account with the NBA account supplementing it to meet the practical needs.

We shall take up the recommendation of the auditors and will make arrangements to maintain separate Bank accounts for USAID/SL funds.

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APPENDIX C8  
NATION BUILDERS ASSOCIATION  
New Town, Kundasele.  
☎ 08 - 32332

Date.....

Finding 3

Co-financing Contribution not attained

MANAGEMENT COMMENTS

NBA's comments under this Item are confined to Grant No.26 where a net shortfall is shown. This shortfall of Rs.9.8m. (approx.) needs further review. The budgeted co-financing contribution for the total acreage reforested was Rs.13.7m. (approx.). This included an estimated contribution of Rs.6.8m. (approx.) for filling vacancies upto 80% of the plantation annually, during the three year period of maintenance. This provision was made expecting the worst possible eventuality of the plantation being affected by droughts or other hazards. However in actual performances the vacancy filling percentage was much less. In an overall average this came to be about 1/3rd of the estimated percentage. Consequently, there was no need to commit total estimated contribution. The actual contribution required was Rs.2.3m. (approx.). Therefore the difference between the estimated contribution and the actual contribution is (6.8m. - 2.3m.) Rs.4.5m. (approx.). When this amount is deducted from the total budgeted contribution of Rs.13.7m., the actual contribution would be Rs.9.2m. (approx.) of which Rs.3.9m. (approx.) was met by the financial contribution. The balance is Rs.5.3m. (approx.). This is the value of non-financial contribution made by the NBA. The make up of this amount is shown in the last column of the table of expenditure vide annexe 1, entitled "Minipe Right Bank Trans-basin Canal Conservation Forestry Project-Grant No.026", a copy of which was presented to the Auditors at the time of the audit.

It is very much regretted that the NBA has not been able to maintain supporting accounting documents in respect of the co-financing contribution in kind for the reasons explained under Finding I, Part I - General. Nevertheless NBA submits that the various activities, viz., demarcation and blocking out of land, aligning and marking, providing necessary buildings, carrying out forestry - conservation and fire - prevention awareness programmes, and filling of vacancies annually, that were envisaged in the Project Budget to be carried out specifically under the co-financing provisions were actually carried out. If they were not, this forestry programme would not have been such a success which was witnessed by the Auditors themselves when they visited the reforested area. We should also remind that the MASL recommended payment only after having taken into consideration that the performances were as provided for in the budget.



Finding 6

Non-adherence to reporting and monitoring provisions.

MANAGEMENT COMMENTS

• Project Evaluation Summaries

The NBA has submitted the following reports in respect of all three grants.

Grant No.26 - two evaluation reports, project completion report & one audit report

Grant No.35 - two evaluation reports and one audit report

Grant No.13 - two evaluation reports, 3 audit reports and project completion report

The Auditors' recommendation is appreciated and noted for compliance in future.

• Claims for Reimbursement

It is admitted that reimbursement claims were not submitted monthly under Grant No.13. Under the other two grants, claims were submitted quarterly. In view of the volume of accounting work involved, the same procedure had been followed in respect of Grant No.13 also. The NBA presumed the USAID acquiesced in this procedure.

• Certificate from Mahaweli Authority

We regret that the NBA had not been able to fulfill this requirement annually. The certificate was obtained only at the conclusion of the project.

• Quarterly Progress Reports  
Federal Cash Advance Status Report

It is regretted that these requirements could not be adequately met.

With regard to the quarterly reports, there was an additional constraint in getting necessary field data due to the law and order situation that prevailed during the time.

Base Line Survey Report - Grant No.35

the NBA regrets very much its lapse in this regard which was due to the Consultant who undertook the assignment having to leave the country during the material time and the data collected by him were not available to the NBA. The Auditors' recommendation is noted for compliance.

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New Town, Kundasele.

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Date.....

### Finding 7

#### Failure to submit Annual Audit Reports

#### MANAGEMENT COMMENTS

We regret this lapse. The Auditors' recommendation is noted for compliance.

M/s S.B. Rodrigues & Co., Chartered Accountants, have been selected as Auditors since 1991 and the final audit of Grant No.13 was carried out by them.

The NBA no longer engages M/s De Alwis Management Services for its auditing.

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Finding 8

Other Questioned Costs.

MANAGEMENT COMMENTS

(ii) Grant 35 - Base Line Survey Report - Rs.26,130.00

This was the initial expenditure incurred by the NBA in connection with the collection of data etc., for the base line survey report. Unfortunately, the consultant who accepted the assignment to prepare the report happened to be out of the country at the material time and the report was not finalized.

(iv) Grant No.035 Line item personnel - Rs.957,256.00

a) Co-financing contribution not within the grant period

Reference the clarification sent by the Auditors.

The amount of Rs.91,530.00 was taken into the computation of co-financing contribution because it represented the value of Shramadana work (labour donation) preparatory to project implementation and therefore formed part of the farmer contribution under the Project.

These performances through Shramadana, though carried out before the date of effectivity of the grant, were the beginning of the process of farmer contribution and therefore inseparable from the subsequent farmer contributions.

b) Co-financing contribution valued at rates in excess of agreed rates.

Working out the rates for computation of the value of work, we have obtained guidance from a few organizations that were involved in similar activities. However, we admit that we do not have official confirmation of such rates. Therefore, we are communicating with the State Sector seeking such confirmation.

Contd.....P/2:

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It may also be mentioned that the amounts stated in the proposal were only estimates of earth work relating to repair and maintenance of bunds and canal systems. No detailed surveys etc. could be carried out at the time of estimation. Further, the type of maintenance work that would be required during a three year period are subject to considerable variation depending upon the rainfall etc. Whatever work that was actually required had been carried out. But this may not have reached the levels that were estimated at the beginning.

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APPENDIX C14  
NATION BUILDERS ASSOCIATION  
New Town, Kundasale.  
☎ 08 - 32332

Date.....

Finding 9

Failure to Comply with Statutory Requirements

MANAGEMENT COMMENTS

As noted by the Auditors the intimation of the liability of the NBA to contribute towards EPF and ETF was received in mid 1992. Necessary action is being followed with the Department of Labour in this regard.

Jo

MINIPE RIGHT BANK TRANSBAGIN CANAL  
CONSERVATION FORESTRY PROJECT & GRANT-026

APPENDIX C15  
ANNEXURE 1

01. PLANTING :

1:1 Linipe Planting :

Year	USAID Contribution	NDA Financial Contribution	Total Financial Contribution	NDA Non Financial Contribution
1985	2217591.50	635840.34	2853431.84	550734.00
1986	857200.00	826260.74	1683460.74	177560.00
Total	3074791.50	1462101.08	4536892.58	728294.00

1:11 Ulhitiya Plantation

Year	USAID Contribution	NDA Financial Contribution	Total Financial Contribution	NDA Non Financial Contribution
1987	166141.00	109357.48	976498.48	367679.00
Total	166141.00	109357.48	976498.48	367679.00

02. Maintenance : Linipe & Ulhitiya

Year	USAID Contribution	NDA Financial Contribution	Total Financial Contribution	NDA Non Financial Contribution
<u>1984 Plantation</u>				
1986	709952.00	164024.00	874776.00	730568.00
1987	263470.00	153881.00	417351.00	504359.00
<u>1985 Plantation</u>				
1986	711477.00	172797.00	884274.00	724879.00
1987	701181.00	165289.50	866470.50	732423.00
1988	286297.00	133564.25	419861.25	526376.00
<u>1986 Plantation</u>				
1987	322260.00	80643.00	402911.00	344857.00
1988	337492.50	75070.50	412563.00	350400.00
1989	112700.00	11850.00	124550.00	300950.00
<u>1987 Plantation</u>				
1988	172469.00	16443.00	188912.00	52784.00
Total	3617306.50	974362.25	4591668.75	4268596.00

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03. FIRE GAPS - Opening & Maintenance

Year	USAID Contribution	NBA Financial Contribution	Total Financial Contribution	NBA Non Financial Contribution
<u>1984 Plantation</u>				
1986	101640.00	14206.50	115846.50	--
1987	61180.00	13548.50	74728.50	--
<u>1985 Plantation</u>				
1986	71401.00	48100.00	119581.00	--
1987	67935.00	6947.50	74882.50	--
1988	67935.00	6990.00	74925.00	--
<u>1986 Plantation</u>				
1987	80500.00	7511.00	88011.00	--
1988	32200.00	3451.00	35651.00	--
	402791.00	100834.50	583625.50	N11

04. Administration Cost

Year	USAID Contribution	NBA Financial Contribution	Total Financial Contribution	NBA Non Financial Contribution
<u>1984 Plantation</u>				
1986	121738.00	66607.00	188345.00	--
1987	39520.50	18162.00	57682.50	--
<u>1985 Plantation</u>				
1985	332638.50	430528.70	763167.20	--
1986	120108.80	70983.95	191172.75	--
1987	105177.00	51919.10	157096.10	--
1988	42944.00	556.00	43500.00	--
<u>1986 Plantation</u>				
1986	128580.00	432068.72	561448.72	--
1987	48340.00	31722.50	80062.50	--
1988	51198.00	26502.00	77700.00	--
1989	16905.00	9085.00	25990.00	--
<u>1987 Plantation</u>				
1987	130223.00	75939.50	206162.50	--
1988	26426.00	17074.00	43500.00	--
	1163878.00	1231948.47	2395827.27	N11

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