

**Regional Inspector General for Audit
Singapore**

PD-ABG-682

15/11/91

**AUDIT OF
CO-OPERATIVE FOR AMERICAN RELIEF
EVERYWHERE, INTERNATIONAL (CARE)
SRI LANKA**

**Report No. 5-383-92-02-N
November 8, 1991**



**AUDIT OF
CO-OPERATIVE FOR AMERICAN RELIEF
EVERYWHERE INTERNATIONAL (CARE)
SRI LANKA**

AUDIT REPORT NO. 5-383-92-02-N

NOVEMBER 8, 1991

Coopers and Lybrand concluded that the Fund Accountability Statements of CARE, Sri Lanka present fairly the receipts and expenditures under the five grants with USAID/Sri Lanka. There were no material internal control weaknesses noted, and for the items tested, CARE complied in all material respects with applicable laws, regulations and agreement terms. The auditors, however, found two minor instances of non-compliance.

**CONTRACTOR INFORMATION CONTAINED IN
THIS REPORT MAY BE PRIVILEGED: THE
RESTRICTIONS OF 13 USC 1905 SHOULD BE
CONSIDERED BEFORE ANY INFORMATION IS
RELEASED TO THE PUBLIC.**

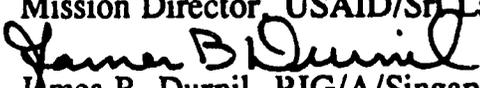
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OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR AUDIT
— Singapore —

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November 8, 1991

MEMORANDUM FOR: Richard Brown
Mission Director, USAID/Sri Lanka

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

SUBJECT: Audit of Co-operative for American Relief Everywhere
International, Sri Lanka (CARE)
Audit Report No. 5-383-92-02-N

The accounting firm of Coopers and Lybrand, Singapore, performed a financial audit of USAID/Sri Lanka's five grants with Co-operative For American Relief Everywhere, International, Sri Lanka (CARE) under the Private Voluntary Organization Co-Financing I and II Projects (Project Nos. 383-0060 and 383-0101). Five copies of the audit report are enclosed for your action.

USAID/Sri Lanka disbursements under the grants are in support of three programs—the Tea Cultivators Assistance Project (TEACUP); the Department of Cooperative Development Credit and Training Project (CATER); and the Appropriate Credits and Training for Income Generation within Sarvodaya Rural Societies (SERVE). The objectives of these programs include raising incomes of small tea farmers, low-income women, out of school youth, small enterprise holders, and cottage industries. CARE supports these objectives through the introduction of improved agricultural practices, training, and providing credit facilities. During the periods under audit, USAID/Sri Lanka provided \$507,841 to CARE to carry out the above activities.

The audit objectives were to determine whether: (1) the Fund Accountability Statements of CARE presented fairly the receipts and expenditures under the five grants for the periods as listed on page 5 of the audit report; (2) CARE's internal controls were

adequate; and (3) CARE complied with applicable laws, regulations and agreement terms. The amount covered by the audit is \$507,841 for the five grants listed on page 5 of the audit report.

Coopers and Lybrand concluded that the Fund Accountability Statements present fairly CARE's receipts and expenditures under the five grants with USAID/Sri Lanka and expressed an unqualified opinion on the Fund Accountability Statements. There were no material internal control weaknesses noted, and for the items tested, CARE complied in all material respects with applicable laws, regulations and agreement terms. The auditors, however, found two minor instances of non-compliance which relate to CARE not having annual grant audits, and equipment not being correctly identified in accordance with agreement requirements on property management.

The management of CARE agreed with the auditors' findings and recommendations and that steps have already been taken to rectify the items noted.

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

Recommendation No. 1: We recommend that USAID/Sri Lanka require CARE to establish and implement procedures to correctly identify A.I.D.-funded equipment.

Recommendation No. 2: We recommend that USAID/Sri Lanka resolve the issue of requiring CARE to have annual audits.

We appreciate the courtesies and cooperation the Mission and CARE extended to Coopers and Lybrand and our staff during the course of this audit.

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

AUDIT OF
CO-OPERATIVE FOR AMERICAN RELIEF EVERYWHERE, INTERNATIONAL
PERTAINING TO ITS PVO CO-FINANCING GRANTS WITH THE
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
IN SRI LANKA

GRANTS AUDITED

PVO CO-FINANCING I 383 - 0060
FOR THE PERIOD JULY 3, 1987 TO AUGUST 28, 1989

PVO CO-FINANCING II 383 - 101 GRANT NO 2
FOR THE PERIOD JANUARY 1, 1988 TO MARCH 31, 1991

PVO CO-FINANCING II 383 - 101 GRANT NO 9
FOR THE PERIOD JUNE 1, 1988 TO MARCH 31, 1991

PVO CO-FINANCING II 383 - 101 GRANT NO 17
FOR THE PERIOD AUGUST 29, 1989 TO MARCH 10, 1990

PVO CO-FINANCING II 383 - 101 GRANT NO 23
FOR THE PERIOD MARCH 1, 1990 TO MARCH 31, 1991

Performed and Prepared

by

Coopers & Lybrand
Singapore

AUDIT OF
CO-OPERATIVE FOR AMERICAN RELIEF EVERYWHERE, INTERNATIONAL
PERTAINING TO ITS PVO CO-FINANCING GRANTS WITH THE
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
IN SRI LANKA

INDEPENDENT AUDITORS' REPORT

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your reference
our reference

A6/WR/9279

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

October 31, 1991

Dear Mr Durnil

This report presents the results of our audit of the Co-operative for American Relief Everywhere, International ("CARE") pertaining to its PVO Co-Financing Grants with the United States Agency for International Development, Sri Lanka ("USAID/SL"), for the following periods:

PVO Co-Financing I	July 3, 1987 to August 28, 1989
PVO Co-Financing II Grant No. 2	January 1, 1988 to March 31, 1991
PVO Co-Financing II Grant No. 9	June 1, 1988 to March 31, 1991
PVO Co-Financing II Grant No. 17	August 29, 1989 to March 10, 1990
PVO Co-Financing II Grant No. 23	March 1, 1990 to March 31, 1991

Background - Sri Lanka

Sri Lanka is an island, separated from the subcontinent of India by the Palk Strait. In 1985 the population stood at 15.2 million with a racial make-up of 74 percent Sinhalese, 12.6 percent Sri Lankan Tamils, 5.5 percent Indian Tamils, 7.1 percent Moors, and 0.8 percent "others". Topographically, Sri Lanka has a central mountain mass which is surrounded by broad plains, plateaus, and valleys. About 72 percent of the population live within the rural areas, concentrated in 25,000 villages spread throughout most parts of the island.

Climatic factors are of vital importance to the economy as agriculture is by far the major component of Gross National Product. Most of the population derives its income from domestic agriculture, but the country is still not self-sufficient in basic foodstuffs.

At present, the World Bank lists Sri Lanka as one of the poorest countries in the world (18th) with an average per capital income of US \$ 430 per annum. However, literacy rates are high at 85 percent of the total population.

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

In an attempt to boost local agricultural production and enhance the income of those living in rural areas, both local organizations and government institutions have been working alongside foreign enterprises (mainly Private Voluntary Organizations ("PVO's")) on a variety of socio-economic based initiatives and projects. One of the PVO's involved in these projects is CARE.

CARE -The Organization and its Programs

CARE began operations in Sri Lanka in 1956. Between that time and the current day, it has had a variety of programs aimed at boosting the welfare and socio-economic standing of citizens, mainly those in the poorer income groups. Its operations are based in Colombo, but in addition it has a number of centers in the smaller towns and rural districts of the island. CARE's staff includes specialists in financial management, agriculture, training, and allied fields, who work together with local organizations and government bodies to achieve the various objectives of its programs.

The programs which are supported by PVO Co-Financing I and II Agreements with USAID/SL are as follows:

- a) Tea Cultivators Assistance Project (TEACUP).
- b) The Department of Cooperative Development Credit and Training Project (CATER).
- c) Appropriate Credits and Training for Income Generation within Sarvodaya Rural Societies (SERVE).

(a) The TEACUP Project

The Kandy district of Sri Lanka, where this project is located, contains the largest number of small holdings in the country cultivating tea, but at the same time gives one of the poorest yields of any district in Sri Lanka. The result is that the small farmers growing tea in the project area receive a very poor income from their tea cultivation, which is the main income earning crop in their mixed holdings. The reasons for such poor incomes are twofold: low production and poor marketing. In addition, these small farmers are unable to obtain the available state subsidies because of the lack of formal land titles, which in turn arises from the mixed nature of their small holdings, and their inability to conform to replanting procedures as laid down by the state.

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

This project, which is operated jointly by CARE and the Tea Small Holdings Development Authority of the Ministry of Plantation Industries, assists tea small holders with one hectare of land to upgrade and diversify their agricultural production in order to increase their income. The project concentrates on improving cultivation and harvesting practices through the provision of important nutrient materials such as fertilizers, and the training of the small holdings employees in harvesting practices.

(b) The CATER Project

This seeks to assist low-income women and out of school youth who are members of Multi-Purpose Cooperative Societies (MPCS) to achieve sustained increases in income by establishing or expanding commercially viable small enterprise activities. The main thrust of the project will be to facilitate the provision of:

- a) Small amounts of production capital (up to Rs 10,000 per loan) from a pool of funds provided by the Cooperative Rural Banks and the Regional Rural Development Banks at favorable interest rates. These loans are provided for agro-based and non agro-based small scale enterprises and income generating activities. A limited Risk Guarantee Fund, up to 10 percent of the loans issued, will be provided by the project; and
- b) A package of small enterprise extension services, including training in small business management techniques, upgrading of technical skills, and production technology.

The primary method of facilitating the provision of credit and small business extension services will be through strengthening the capacities of the MPCSSs.

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

(c) The SERVE Project

This is a three year project to extend credit and training for cottage industries, small business enterprises and cultivation activities to members of selected Sarvodaya Societies within the Kandy district.

The project is a joint collaboration by the Sarvodaya Economic Enterprises Development Service ("SEEDS"), CARE, People's Bank and the Central Bank. It is implemented through the Kandy Sarvodaya District Office and 38 registered societies in the Kandy rural area, utilizing the services of six rural bank branches. The project is enabling villagers who are members of the societies to increase their incomes by upgrading existing small businesses or embarking on new economic enterprises; activities which villagers are presently unable to undertake due to the difficulty in raising the necessary capital, and in many cases lack of technical knowledge.

During the project period, credit is provided through the formal banking institutions. Project participants establish a credit record through this scheme, allowing them to independently secure loans from the bank in the post-project period.

Training and loan instalment releases are closely aligned in order to derive the maximum benefit from both components of the project.

These activities should assist in the development of a sustainable small enterprise training and credit delivery system, utilizing rural commercial banking institutions, which can be implemented islandwide through the existing Saravodaya infrastructure.

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 CARE's Fund Accountability Statements as they relate to the one grant received under PVO Co-Financing I Project, and the four grants received under PVO Co-Financing II Project, for the following periods:

PVO Co-Financing I	July 3, 1987 to August 28, 1989
PVO Co-Financing II Grant No. 2	January 1, 1988 to March 31, 1991
PVO Co-Financing II Grant No. 9	June 1, 1988 to March 31, 1991
PVO Co-Financing II Grant No. 17	August 29, 1989 to March 10, 1990
PVO Co-Financing II Grant No. 23	March 1, 1990 to March 31, 1991

The Fund Accountability Statements comprise the Income and Expenditure Statements of the relevant grants for the periods outlined above, and the notes thereon. The results of our work are reflected in the accompanying Independent Auditors' Reports on the:

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

The objectives of our work were to determine whether:

- (a) The Fund Accountability Statements for CARE present fairly the income, expenditures and closing balances of CARE in respect of the Co-Financing Projects for the audit periods noted above and in accordance with generally accepted accounting principles and the terms of the Grant Agreements. Expenditure reimbursed by USAID/SL as well as costs claimed as part of CARE's contribution to the Grants were covered by this audit;
- (b) CARE's internal accounting controls are adequate to provide reasonable assurance that the assets of CARE are safeguarded against loss from unauthorized use or disposition and that transactions are properly recorded; and

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

- (c) CARE has complied with applicable laws, regulations and agreement terms.

Our audit was conducted in accordance with generally accepted auditing standards and US Government Auditing Standards and, accordingly, included such tests as we considered appropriate to determine whether expenditures charged to the grants were in accordance with the agreement terms, other applicable program documents, and the laws of Sri Lanka.

The scope of our work primarily included the following general procedures:

- (a) Holding meetings with USAID/SL, CARE and USAID Regional Inspector General for Audit/Singapore ("RIG/S") officials;
- (b) Reviewing the appropriate grant agreements and amendments, OMB circulars, AID handbook regulations and mandatory standard provisions for US grantees, prior period audit reports on CARE's financial statements, correspondence and minutes of meetings between USAID/SL and CARE, as well as project progress reports maintained by both CARE and USAID/SL;
- (c) Obtaining an understanding of the accounting, administrative and internal control systems of CARE 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 CARE'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 our opinion, the Fund Accountability Statements present fairly, in all material respects, the income and expenditure of CARE for the periods in question as they pertain to the grants received from USAID/SL under the PVO Co-Financing I and II Projects.

(b) System of Internal Controls

In planning and performing our audit of CARE, 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 CARE as a whole.

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

We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses. However, we noted certain other matters involving the internal control structure and its operation that we have reported to the management of CARE in a separate letter.

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

Our tests for compliance with agreement terms and applicable laws and regulations of selected transactions and records of CARE indicated that, for the items tested, CARE complied with those provisions of its agreement terms, as well as applicable laws and regulations, for the period under our review, except in the following areas:

- 1 CARE had not complied with grant agreement provisions for annual grant audits.

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

- 2 Equipment purchased under the joint project between CARE and Sarvodaya had not been correctly identified in accordance with USAID property management provisions.

The noted exceptions have been discussed further in our detailed report of these findings on pages 23 and 24. However, the overall result of these non-compliance issues is not considered to have a material effect of the Fund Accountability Statements of CARE for the periods under our review.

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

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

Comments on Findings and Recommendations

The management of CARE and USAID/SL have agreed to our findings and recommendations on compliance issues, the details of which are set out on pages 23 and 24 respectively. Steps have already been taken to rectify the items noted.

Acknowledgements

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

Yours truly



**REPORT ON THE
FUND ACCOUNTABILITY STATEMENTS**

90

your reference
our reference**A6/WR/9279**

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

October 31, 1991

Dear Mr Durnil

CO-OPERATIVE FOR AMERICAN RELIEF EVERYWHERE, INTERNATIONAL
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

We have audited the Fund Accountability Statements of the Co-operative for American Relief Everywhere ("CARE") pertaining to its PVO Co-Financing Grants with the United States Agency for International Development, Sri Lanka ("USAID/SL") as they relate to the following periods:

PVO Co-Financing I	July 3, 1987 to August 28, 1989
PVO Co-Financing II Grant No. 2	January 1, 1988 to March 31, 1991
PVO Co-Financing II Grant No. 9	June 1, 1988 to March 31, 1991
PVO Co-Financing II Grant No. 17	August 29, 1989 to March 10, 1990
PVO Co-Financing II Grant No. 23	March 1, 1990 to March 31, 1991

These Statements, comprising the Income and Expenditure Statements for each grant and the notes thereon, as set out on pages 11 to 16, are the responsibility of CARE's management. Our responsibility is to express an opinion on these Statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and US Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statements are free of material misstatement. An audit



resident partners

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CO-OPERATIVE FOR AMERICAN RELIEF EVERYWHERE, INTERNATIONAL
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

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.

As stated in Note 2 on page 16 the Fund Accountability Statements present only the transactions of CARE as they pertain to the grants received from USAID/SL under the PVO Co-Financing I and II Projects, as well as CARE's contributions to these grants, and are not intended to present fairly the income and expenditure of CARE as a whole.

In our opinion, the Fund Accountability Statements referred to above present fairly, in all material respects, the income and expenditure of CARE for the periods covered in conformity with generally accepted accounting principles.

This report is intended solely for the use of USAID/SL 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

October 31, 1991



INTERNATIONAL

SRI LANKA

Vilasitha Niwasa, 2nd Floor, 375, Havelock Road, Colombo 6.
P.O. Box 1024, Colombo. Telephone: 500783, 500784, 500785, Grams: CARECEL

CARE SRI LANKA
PVO CO FINANCING I 383 - 0060
FOR THE PERIOD FROM JULY 3, 1987 TO AUGUST 28, 1989

<u>INCOME</u>	<u>USAID</u>	<u>CARE</u>
	US\$	US\$
Contributions received	130,780	201,442
 <u>EXPENDITURE</u>		
Personnel costs	48,272	-
Training	33,034	6,290
Revolving credit	10,110	-
RTA support	3,234	-
Travel and vehicle maintenance	12,072	64,953
Administrative support	13,161	129,787
Audit fees	458	412
CARE - US overheads	10,439	-
	-----	-----
	130,780	201,442
	=====	=====

LEE MONCASTER
(COUNTRY DIRECTOR)



INTERNATIONAL

SRI LANKA

Vilasitha Niwasa, 2nd Floor, 375, Havelock Road, Colombo 6.
P O. Box 1024, Colombo. Telephone: 500783, 500784, 500785. Grams: CARECEL

CARE SRI LANKA
PVO CO FINANCING II 383 - 101 GRANT NO 2
FOR THE PERIOD FROM JANUARY 1, 1988 TO MARCH 31, 1991

<u>INCOME</u>	<u>USAID</u>	<u>CARE</u>
	US\$	US\$
Contributions received	87,287	161,264
<u>EXPENDITURE</u>		
Sarvodaya project - Personnel costs	20,871	-
Administrative costs	24,367	6,664
Sarvodaya general administration costs	5,844	-
Project material inputs	13,079	24,633
Monitoring and evaluation	825	-
CARE staff salaries and benefits	6,635	100,987
CARE operating expenses	7,529	28,861
Audit fees	-	119
CARE - US overheads	6,195	-
	-----	-----
	85,345	161,264
	=====	=====
Amount refundable as at March 31, 1991	1,942	NIL
	=====	=====

LEE MONCASTER
(COUNTRY DIRECTOR)



INTERNATIONAL

SRI LANKA

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CARE SRI LANKA

PVO CO FINANCING II 383 - 101 GRANT NO 9

FOR THE PERIOD FROM JUNE 1, 1988 TO MARCH 31, 1991

Table with 3 columns: INCOME, USAID, CARE. Rows include Contributions received, EXPENDITURE (International personnel costs, National staff costs, Project material inputs, Travel and lodging, Monitoring and evaluation, Training, Colombo head office costs, CARE - US overheads), and Amount refundable as at March 31, 1991.

Handwritten signature of Lee Moncaster

LEE MONCASTER
(COUNTRY DIRECTOR)



INTERNATIONAL

SRI LANKA

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CARE SRI LANKA

PVO CO FINANCING II 383 - 101 GRANT NO 17

FOR THE PERIOD FROM AUGUST 29, 1989 TO MARCH 10, 1990

<u>INCOME</u>	<u>USAID</u>	<u>CARE</u>
	US\$	US\$
Contributions received	54,688	14,927
<u>EXPENDITURE</u>		
International personnel cost	4,699	14,290
National staff costs	13,610	637
Revolving credit	3,127	-
Training	13,346	-
Other project inputs	95	-
Monitoring and evaluation	91	-
Travel and transport	3,012	-
Field office operations	3,365	-
Colombo office administrative costs	9,059	-
CARE - US overheads	4,284	-
	-----	-----
	54,688	14,927
	=====	=====

LEE MONCASTER
(COUNTRY DIRECTOR)

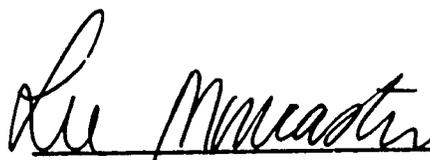
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CARE SRI LANKA

PVO CO FINANCING II 383 - 101 GRANT NO 23

FOR THE PERIOD FROM MARCH 1, 1990 TO MARCH 31, 1991

<u>INCOME</u>	<u>USAID</u>	<u>CARE</u>
	US\$	US\$
Contributions received	140,013	79,519
 <u>EXPENDITURE</u>		
International staff costs	8,749	21,385
National staff costs	40,704	-
Revolving credit	1,631	-
Training	28,173	310
Other project inputs	1,054	-
Monitoring and evaluation	356	-
Travel and transport	23,177	41,292
Field office operations	8,721	-
Colombo office administrative costs	14,812	16,532
CARE - US overheads	10,360	-
	-----	-----
	137,737	79,519
	=====	=====
Amount refundable as at March 31,1991	2,276	NIL
	=====	=====



LEE MONCASTER
(COUNTRY DIRECTOR)

CO-OPERATIVE FOR AMERICAN RELIEF EVERYWHERE, INTERNATIONAL

Notes to the Fund Accountability Statements

1 Significant Accounting Policies

- (a) The Fund Accountability Statements, expressed in US dollars, are prepared in accordance with the historical cost convention.
- (b) Expenditure is accounted for on an accruals basis. Income relates to amounts actually received.
- (c) Transactions arising in foreign currencies are translated to US dollars at rates of exchange approximating those ruling on the transaction dates.

2 Component unit of CARE Sri Lanka

The Fund Accountability Statements of CARE present only the transactions pertaining to grants received from USAID/SL under the PVO Co-Financing I and II projects, as well as CARE's contributions to these grants, and are not intended to present fairly the income and expenditure of CARE as a whole.

3 CARE-US overheads

CARE-US overhead costs are based on fixed rates in relation to direct USAID funded expenditure. The rates are as follows:

<u>July 1, 1987 to June 30, 1988</u>	<u>July 1, 1988 to June 30, 1990</u>	<u>July 1, 1990 to March 31, 1991</u>
%	%	%
8.6	8.5	8.0

The rates were negotiated by CARE-US and approved by USAID/Washington in accordance with the procedures stated in Section E of the office of Management and Budget ("OMB") circular No, A-122 "Negotiation and Approval of Indirect Cost Rates."

REPORT ON THE SYSTEM OF INTERNAL CONTROLS

16a

your reference
our reference

A6/WR/9279

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

October 31, 1991

Dear Mr Durnil

CO-OPERATIVE FOR AMERICAN RELIEF EVERYWHERE, INTERNATIONAL
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

We have audited the Fund Accountability Statements of the Co-operative for American Relief Everywhere ("CARE") pertaining to its PVO Co-Financing Grants with the United States Agency for International Development, Sri Lanka ("USAID/SL") as they relate to the following periods:

PVO Co-Financing I	July 3, 1987 to August 28, 1989
PVO Co-Financing II Grant No. 2	January 1, 1988 to March 31, 1991
PVO Co-Financing II Grant No. 9	June 1, 1988 to March 31, 1991
PVO Co-Financing II Grant No. 17	August 29, 1989 to March 10, 1990
PVO Co-Financing II Grant No. 23	March 1, 1990 to March 31, 1991

These Statements, comprising the Income and Expenditure Statements for each grant and the notes thereon, are set out on pages 11 to 16 and we have issued our report thereon dated October 31, 1991.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.



resident partners

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

Noris C G Ong
David G Compton
Philip E S Tan
Michael G Gray
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C Michael Fleming
Andrew Jackomos
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CO-OPERATIVE FOR AMERICAN RELIEF EVERYWHERE, INTERNATIONAL
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INDEPENDENT AUDITORS' REPORT ON THE SYSTEM OF
INTERNAL CONTROLS

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

The management of CARE is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorised use or disposition, and that transactions are executed in accordance with management's authorisation and recorded properly to permit the preparation of the statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

Accounting Controls:

- Cash receipts
- Cash disbursements
- Payroll
- Property and equipment
- Risk guarantee funds

Administrative Controls:

- Cost allocation and allowability
- Monitoring
- Reporting

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

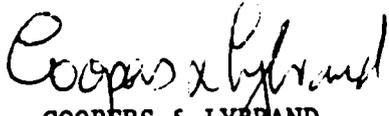
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INDEPENDENT AUDITORS' REPORT ON THE SYSTEM OF
INTERNAL CONTROLS

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce, to a relatively low level, the risk that errors or irregularities, in amounts that would be material in relation to the Statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned tasks. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of CARE in a separate letter.

This report is intended solely for the use of USAID/SL 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

October 31, 1991

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

your reference
our reference

A6/WR/9279

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

October 31, 1991

Dear Mr Durnil

CO-OPERATIVE FOR AMERICAN RELIEF EVERYWHERE, INTERNATIONAL
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

We have audited the Fund Accountability Statements of the Co-operative for American Relief Everywhere ("CARE") pertaining to its PVO Co-Financing Grants with the United States Agency for International Development, Sri Lanka ("USAID/SL") as they relate to the following periods:

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These Statements, comprising the Income and Expenditure Statements for each grant and the notes thereon, are set out on pages 11 to 16 and we have issued our report thereon dated October 31, 1991.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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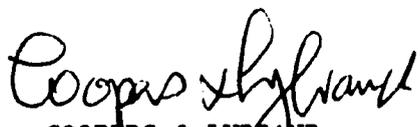
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
AGREEMENT TERMS, APPLICABLE LAWS AND REGULATIONS

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

Our testing of transactions and records disclosed instances of non-compliance with those laws and regulations. All instances of non-compliance that we found, and the grants to which they relate, are identified in the accompanying schedules of findings on pages 22 to 24.

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

This report is intended solely for the use of USAID/SL 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

October 31, 1991

CO-OPERATIVE FOR AMERICAN RELIEF EVERYWHERE, INTERNATIONAL

IN SRI LANKA

SUMMARY OF AUDIT FINDINGS ON COMPLIANCE ISSUES

- 1 CARE had not complied with grant agreement provisions for annual grant audits.

- 2 Equipment purchased under the joint project between CARE and Sarvodaya had not been correctly identified in accordance with USAID property management provisions.

CO-OPERATIVE FOR AMERICAN RELIEF EVERYWHERE, INTERNATIONAL

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SCHEDULE OF FINDINGS OF NON - COMPLIANCE

1 ANNUAL AUDITS

Condition

No annual audits of the PVO Co-Financing II - 101 Project Grants 2 and 9 have been conducted since June 1989.

Criteria

Under the terms of Grant Nos 2 and 9 CARE, as the grantee, is required to have the program audited annually by an independent accounting firm. Copies of the audit reports were also to be made available within two months of CARE's fiscal year end.

Effect

Without annual audits any errors, misstatements, internal control lapses or non-compliances with laws, regulations and agreements may not be discovered timely. Our audit, however, has not noted any matters which have a significant effect on the Fund Accountability Statements of CARE that are included in this report.

Cause

CARE had written to USAID/SL to obtain a waiver from this condition of the grant agreements.

Despite an initial rejection of the waiver request by USAID/SL, CARE is actively pursuing this matter, but to date no further correspondence has been received from USAID/SL.

Recommendation

USAID/SL and CARE should resolve this matter at their earliest convenience.

Management's Comments

Based on verbal agreements between USAID/SL and CARE/SL it was decided to forego the annual audit requirement stipulated in the original project grants (numbers 2 & 9) because it was believed that CARE's single purpose audit required of CARE worldwide would also cover all of AID's grant activities. CARE/SL expects further correspondence in the near future from USAID/SL. However, in the interim it was agreed that the grant provisions would be revised to conform with the current USAID practices.

Given USAID's recently established policy requiring annual recipient contracted audits, each grant will have audits in the future. Since your audit was recently undertaken reviewing all years these grants were active, we presume this will fulfill the annual audit requirement.

CO-OPERATIVE FOR AMERICAN RELIEF EVERYWHERE, INTERNATIONAL

IN SRI LANKA

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

2 PROPERTY MANAGEMENT OF AID FUNDED ASSETS

Condition

Equipment purchased in respect of the SERVE project (a joint project between CARE and Sarvodaya) appears not to have been correctly identified to facilitate asset control.

Criteria

Standard provisions of AID Handbook 13 and OMB Circular 110 require appropriate identification and management standards to be instituted in respect of equipment procured with US Government funds.

Effect

USAID funded equipment has not been correctly identified to ensure it does not become co-mingled with other non-AID funded equipment, and it therefore may be susceptible to unauthorised disposition.

Cause

There appears to be some confusion over the responsibility for equipment purchased for the SERVE project with CARE contending that Sarvodaya is responsible for the management of these items.

Recommendation

CARE should ensure its compliance with the necessary provisions of AID Handbook 13 and OMB Circular 110.

Management's Comments

We accept your comments and we have already taken steps to:

- (a) Record the inventory of vehicles, material and equipment purchased under the project; and
- (b) Monitor the use of the vehicles and equipment according to normal CARE inventory practices.

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