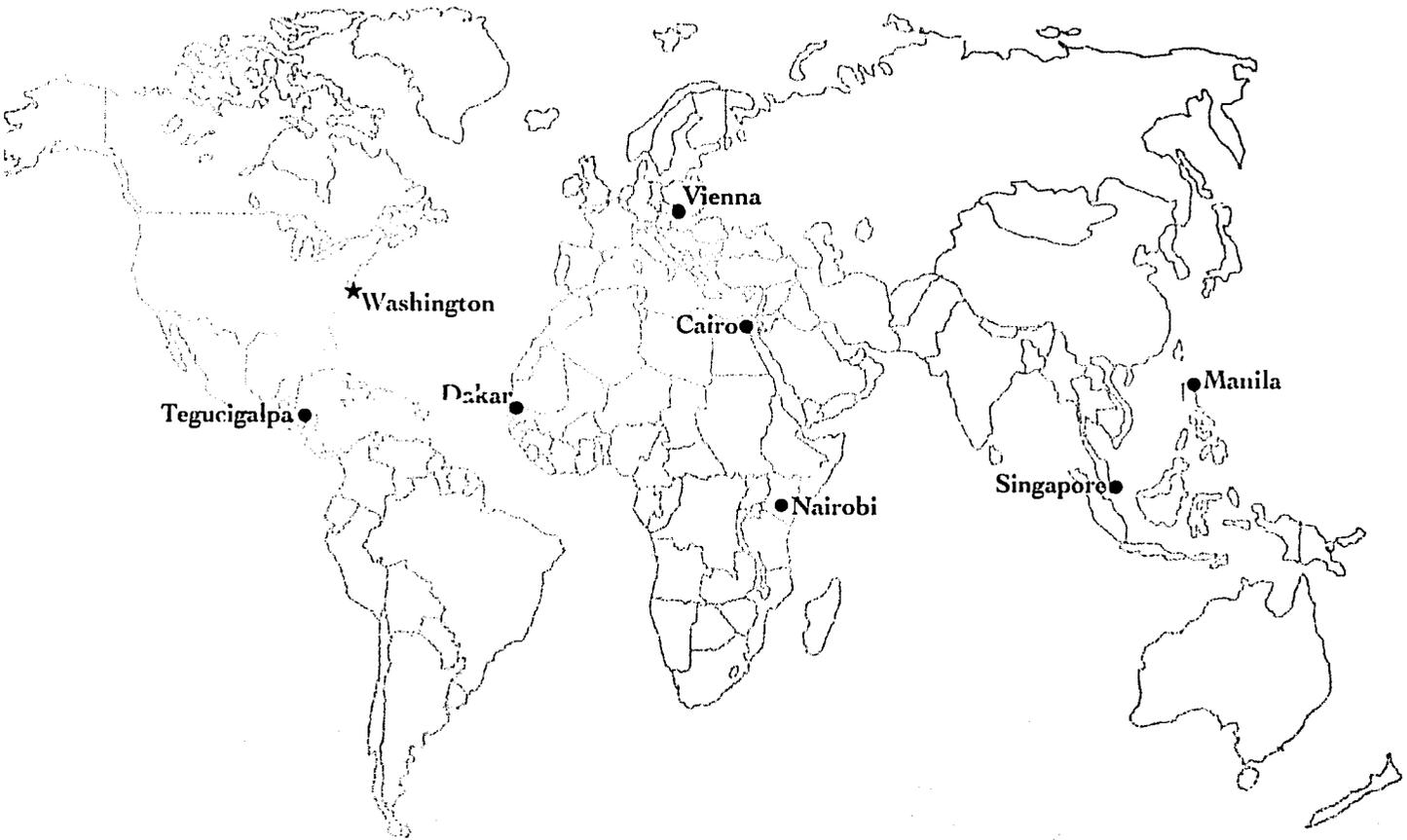


**Regional Inspector General for Audit
Singapore**

**AUDIT OF
DEVELOPMENT ALTERNATIVES, INC.'S CONTRACT
UNDER THE FINANCIAL INSTITUTIONS DEVELOPMENT
PROJECT
INDONESIA**

**Audit Report No. 5-497-94-002-N
November 30, 1993**





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

November 30, 1993

TO: Charles F. Weden, Mission Director
USAID/Indonesia

FROM: Richard C. Thabet, RIG/A/Singapore 

SUBJECT: Audit of Development Alternatives, Inc.'s Contract under the
Financial Institutions Development Project - Indonesia
Report No. 5-497-94-002-N

Enclosed are five copies of the subject audit report (prepared by the accounting firm of Prasetio, Utomo & Co., the Arthur Andersen affiliate in Inuonesia) for your action. This financial audit of USAID/Indonesia's contract with Development Alternatives, Inc. (DAI) under the Financial Institutions Development Project covered the period from February 18, 1986 to June 30, 1992. During this period, DAI reported that it incurred expenses amounting to \$1,218,341 and claimed fees totalling \$165,040 under its operations in Indonesia. The background on this contract is presented on pages 1 to 2 of the report.

The audit objectives were to:

- Determine whether DAI's Statement of Expenses and Fees presents fairly the expenses incurred and fees claimed under the contract;
- Report on DAI's system of internal controls; and
- Report on DAI's compliance with applicable laws, regulations, and terms of the agreements.

In addition to expressing an unqualified opinion on DAI's Statement of Expenses and Fees, the overall conclusions of the audit were as follows:

- Report on Internal Controls: The auditors identified four reportable conditions in the areas of cash management and recordkeeping which they did not consider to be material weaknesses.

- **Report on Compliance** : Four material findings on compliance were identified by the auditors, and expenses amounting to \$5,332 were questioned. In addition, the lack of proper accounting records resulted in the understatement of fees by \$17,288. Except for these instances of non-compliance, the auditors reported that DAI had complied in all material respects with applicable laws, regulations, and terms of the contract.

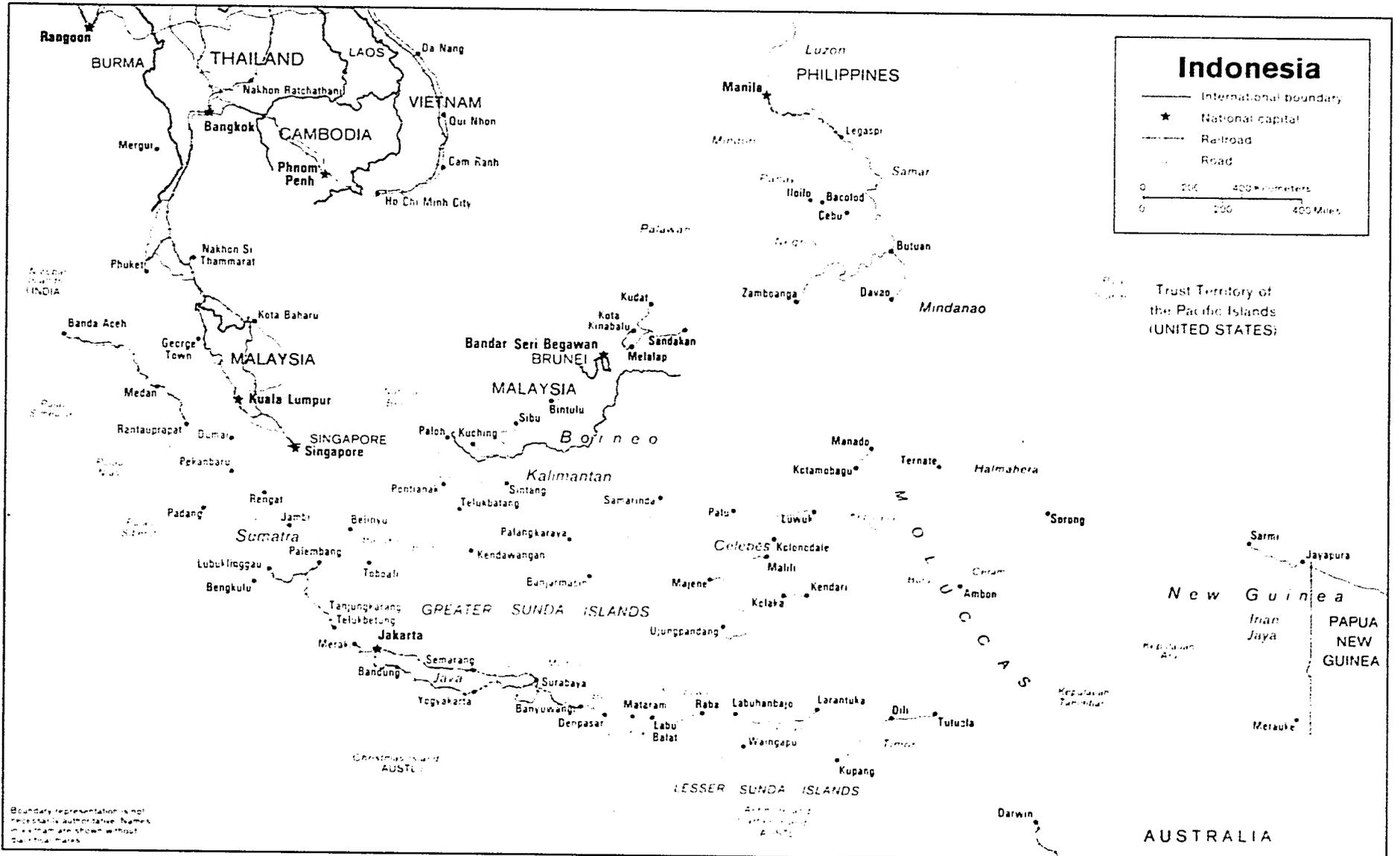
This audit report contains eight findings and recommendations. In their response, DAI's officials generally agreed with these findings and recommendations. Their comments are summarized after each finding in the report and are presented in their entirety as Appendix C.

USAID/Indonesia needs to ensure that necessary action is taken to correct the problems noted herein, including the \$17,288 understatement of fees with DAI. In addition, the following recommendation is being made and will be included in the Inspector General's recommendation follow-up system:

Recommendation No. 1: We recommend that USAID/Indonesia resolve the \$5,332 in unsupported questioned expenses with DAI and recover any amounts due.

We appreciate the courtesies and cooperation USAID/Indonesia and DAI 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
DEVELOPMENT ALTERNATIVES, INC.
PERTAINING TO ITS CONTRACT WITH THE
UNITED STATES AGENCY FOR INTERNATIONAL
DEVELOPMENT IN INDONESIA**

**Contract No. AID 497-0341-C-00-5092-00
For the period February 18, 1986 to June 30, 1992**

United States Dollar Currency

**AUDIT OF
DEVELOPMENT ALTERNATIVES, INC.
PERTAINING TO ITS CONTRACT WITH THE
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
IN INDONESIA
Contract No. AID 497-0341-C-00-5092-00**

**INDEPENDENT AUDITORS' REPORT
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PRASETIO, UTOMO & CO.

REGISTERED PUBLIC ACCOUNTANTS

ARTHUR ANDERSEN & CO. SC

Chase Plaza
Jl. Jend. Sudirman Kav. 21
Jakarta 12920, Indonesia



April 29, 1993

Letter No. UO-6791

**Mr. Richard C. Thabet
Regional Inspector General
for Audit Singapore
US Agency for International Development
111, North Bridge Road
17-03, Peninsula Plaza
Singapore 0617**

Dear Mr. Thabet,

This report presents the results of our financial audit of the expenses and fees (excluding the home office support costs), reported in the statement of expenses and fees incurred in Indonesia, of Development Alternatives, Inc. (DAI) as it relates to the Technical Assistance Contract No. AID 497-0341-C-00-5092-00, (the Contract) with United States Agency for International Development/Indonesia (USAID/I) under the Financial Institutions Development (FID) Project, from the inception of the Contract on February 18, 1986 to June 30, 1992.

BACKGROUND

The FID Project is designed to develop and expand existing village-based credit institutions in Indonesia. Its objective is to strengthen the ability of four village systems in West Java, West Sumatera, and Central Java to extend credit to borrowers, to expand loan portfolios beyond trader credits to include small entrepreneurs and to begin mobilizing voluntary savings. The Project provides training, technical assistance and equipment to develop the staff, the operational procedures of local credit institutions and to forge closer link between them and the provincial banks responsible for supervision, training and inspection. The Project also provides funds to capitalize individual units to help expand loan portfolios.

DAI was contracted by USAID/I to provide the technical assistance element for the FID Project.

Under the Project, the long-term and short-term advisers worked with Provincial Development Banks (Bank Pembangunan Daerah) in the provinces of Central Java, West Java, East Java, Bali, West Sumatra and South Kalimantan to help develop their management, supervisory and inspection capability. DAI provided assistance in creating and improving management information systems (MIS), savings program, accounting systems, and curriculum design to support a large training effort.

AUDIT OBJECTIVES AND SCOPE OF WORK

We have conducted a financial audit of DAI as it relates to the Contract with USAID/I under the FID Project with the view of:

1. Rendering an opinion whether DAI's statement of expenses and fees incurred in Indonesia presents fairly the expenses and fees incurred in Indonesia for the period February 18, 1986 to June 30, 1992 in accordance with the cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles and the terms of the Contract with USAID/I. Any expenditures which are not fully supported by adequate records or reasonable or allowable under the terms of the Contract should be identified and questioned.
2. Rendering an opinion on DAI's internal accounting controls ensuring that they are adequate to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with the Contract, and DAI's authorization are properly recorded to permit the preparation of vouchers or invoices in accordance with the Contract.
3. Rendering an opinion on DAI's compliance with the terms of the Contract, applicable laws and regulations.

Our audit was principally 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/I, DAI and USAID Regional Inspector General for Audit/Singapore ("RIG/S") officials;
- b. Reviewing the Contract Agreement and appropriate amendments, OMB circulars, AID handbook regulations, correspondence between USAID and DAI as well as project progress reports maintained by both DAI and USAID/I;
- c. Obtaining an understanding of the accounting, administrative and internal control systems of DAI using interviews, flowcharts and narrative descriptions;
- d. Devising and performing appropriate tests on the transactions and balances recorded in the statement of expenses and fees incurred in Indonesia.
- 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 DAI's management to ensure compliance with applicable laws, regulations and contract terms.

SUMMARY OF AUDIT RESULTS

1. Opinion on the Statement of Expenses and Fees Incurred in Indonesia

The statement referred to above was prepared on a cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles and is not intended to be a complete presentation of DAI's as a whole. Also, the statement referred to above presents solely the expenses and fees incurred in Indonesia under the Contract referred to above. As instructed, our audit was limited to such expenses and fees.

Our examination disclosed that there are certain expenses and fees reported in the statement referred to above which are not reasonable and are not allowed under the terms of the Contract referred to above and, therefore, are considered to be questioned costs as described in Appendix A. However, these questioned costs are considered to be not material, therefore, no adjustments have been made on the statement referred to above.

In our opinion, the statement of expenses and fees incurred in Indonesia referred to above presents fairly, in all material respects, the expenses and fees incurred in Indonesia by DAI pertaining to its contract with USAID/I under FID Project for the period February 18, 1986 to June 30, 1992 on the basis of accounting described in Note 1 to the statement.

2. System of Internal Controls

In accordance with Paragraph 19 of Chapter 5 of Government Auditing Standards, we have limited our reliance on DAI Jakarta office's internal control structure as our evaluation thereon indicated that an adequate structure for purposes of audit reliance was considered to be not in existence given the small size of the Jakarta office. We observed that on the overall the internal control structure was weak. The system was characterized by lack of adequate record keeping and filing as well as supervision on the financial and administrative control system. We observed that the Chief of Party concentrated more on the technical aspects of the Contract, leaving only the secretary to handle the financial and administrative aspects. As a consequence, we adopted a substantive testing approach in our audit of the statement of expenses and fees incurred in Indonesia.

During the course of our audit, we noted certain matters involving internal control structure and its operations that we considered to be reportable conditions and have been detailed in pages 13 to 17 of our report. However, we believe none of these reportable conditions is a material weakness.

3. Compliance with Contract Terms, Applicable Laws and Regulations

The results of our testing of transactions and records selected disclosed material instances of non-compliance with certain terms of the Contract, applicable laws and regulations, the effects of which have not been adjusted in the statement of expenses and fees incurred in Indonesia. The findings on non-compliance are set out on pages 20 to 25 and the relevant appendices.

We considered these material instances of non-compliance in forming our opinion on whether the DAI's statement of expenses and fees incurred in Indonesia is presented fairly, in all material respects, in conformity with the cash basis of accounting described in note 1 to the statement, and this report is not considered to affect our report dated April 29, 1993 on such statement.

Except as described in the first paragraph, the results of our tests of compliance indicate that with respect to the items tested, DAI Jakarta office complied, in all material respects, with the provisions of the Contract, applicable laws and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that DAI had not complied, in all material respects, with those provisions.

COMMENTS ON FINDINGS AND RECOMMENDATIONS

The management of DAI have principally agreed to our findings and recommendations on the internal control and non-compliance issues set out on pages 13 to 17 and 20 to 25, respectively, and their comments can be found on the relevant pages of our findings and in full in Appendix C.

AUDIT FOLLOW-UP

No prior audits were carried out on DAI's contract with USAID/I.

ACKNOWLEDGEMENTS

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

Very truly yours,

PRASETIO, UTOMO & CO.



Drs Soemarso S. R.
Partner



PRASETIO, UTOMO & CO.
REGISTERED PUBLIC ACCOUNTANTS

ARTHUR ANDERSEN & CO. SC

Chase Plaza
Jl. Jend. Sudirman Kav. 21
Jakarta 12920, Indonesia

Letter No. UO-6793

Mr. Richard C. Thabet
Regional Inspector General
for Audit, Singapore
US Agency for International Development
111, North Bridge Road
#17-03, Peninsula Plaza
Singapore 0617

Dear Mr. Thabet,

FINANCIAL AUDIT OF DEVELOPMENT ALTERNATIVES, INC.
PERTAINING TO ITS TECHNICAL ASSISTANCE CONTRACT WITH
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT IN INDONESIA

INDEPENDENT AUDITORS' REPORT ON
STATEMENT OF EXPENSES AND FEES INCURRED IN INDONESIA

We have audited the statement of expenses and fees incurred in Indonesia by Development Alternatives, Inc. (DAI) pertaining to its Contract No. AID 497-0341-C-00-5092-00 with United States Agency for International Development, Indonesia (USAID/I) under the Financial Institutions Development (FID) Project for the period February 18, 1986 to June 30, 1992. This statement is the responsibility of DAI's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and 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 statement of expenses and fees incurred in Indonesia is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of expenses and fees incurred in Indonesia. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of statement of expenses and fees incurred in Indonesia. We believe that our audit provides a reasonable basis for our opinion.

As mentioned in Note 1, the statement referred to above was prepared on a cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles and is not intended to be a complete presentation of DAI's as a whole. Also, the statement referred to above presents solely the expenses and fees incurred in Indonesia under the Contract referred to above. As instructed, our audit was limited to such expenses and fees.

Our examination disclosed that there are certain expenses and fees reported in the statement referred to above which are not reasonable and are not allowed under the terms of the Contract referred to above and, therefore, are considered to be questioned costs as described in Appendix A. However, these questioned costs are considered to be not material, therefore, no adjustments have been made on such statement referred to above.

In our opinion, the statement of expenses and fees incurred in Indonesia referred to above presents fairly, in all material respects, the expenses and fees incurred in Indonesia by DAI pertaining to its contract with USAID/I under FID Project for the period February 18, 1986 to June 30, 1992 on the basis of accounting described in Note 1.

PRASETIO, UTOMO & CO.



Drs Soemarso S. R.
Registered Accountant No. D-1066

April 29, 1993

**DEVELOPMENT ALTERNATIVES, INC.
 CONTRACT NO. AID 497-0341-C-00-5092-00 WITH
 UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT/INDONESIA
 UNDER FINANCIAL INSTITUTIONS DEVELOPMENT PROJECT
 STATEMENT OF EXPENSES AND FEES INCURRED IN INDONESIA
 FOR THE PERIOD FEBRUARY 18, 1986 TO JUNE 30, 1992**

	<u>Note</u>	
ALLOWANCES		US\$ 549,488
SUBCONTRACTS		280,677
OTHER DIRECT COSTS		187,764
TRAVEL AND TRANSPORTATION		160,615
COMPUTERS AND PRINTERS		32,454
OVERHEAD		4,116
FRINGE BENEFITS		3,227
Total Expenses		1,218,341
FIXED FEES	2	165,040
TOTAL EXPENSES AND FEES		US\$ 1,383,381

See accompanying Notes to Statement of Expenses and Fees Incurred in Indonesia.

DEVELOPMENT ALTERNATIVES, INC.

D. A. Lucock.

David A. Lucock
 Chief of Party, FID Project

**DEVELOPMENT ALTERNATIVES, INC.
CONTRACT NO. AID 497-0341-C-00-5092-00 WITH
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT/INDONESIA
UNDER FINANCIAL INSTITUTIONS DEVELOPMENT PROJECT
NOTES TO STATEMENT OF EXPENSES AND FEES INCURRED IN INDONESIA**

1. SIGNIFICANT ACCOUNTING POLICY

Basis of Statement of Expenses and Fees Incurred in Indonesia

The statement of expenses and fees incurred in Indonesia, expressed in US dollars, has been prepared on a cash basis of accounting using historical cost and presents only Indonesia cost incurred by DAI pertaining to its Contract with USAID/I under FID Project as they relate to technical assistance provided directly or indirectly, and are not intended to present fairly the expenses of DAI as a whole.

2. FIXED FEES

Fixed fees represent DAI's technical assistance fees computed at 5% of the total expenses (Home office support cost and Indonesia cost), excluding expenses for computers and printers.



PRASETIO, UTOMO & CO.

REGISTERED PUBLIC ACCOUNTANTS

ARTHUR ANDERSEN & Co. SC

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Letter No. UO-6795

**Mr. Richard C. Thabet
Regional Inspector General
for Audit, Singapore
US Agency for International Development
111, North Bridge Road
#17-03, Peninsula Plaza
Singapore 0617**

Dear Mr. Thabet,

**FINANCIAL AUDIT OF DEVELOPMENT ALTERNATIVES, INC.
PERTAINING TO ITS TECHNICAL ASSISTANCE CONTRACT WITH
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT IN INDONESIA**

**INDEPENDENT AUDITORS' REPORT
ON THE INTERNAL CONTROL STRUCTURE**

We have audited the statement of expenses and fees incurred in Indonesia by Development Alternatives, Inc. (DAI) pertaining to its Contract No. AID 497-0341-C-00-5092-00 with United States Agency for International Development, Indonesia (USAID/I) under the Financial Institutions Development (FID) Project for the period February 18, 1986 to June 30, 1992, and have issued our report thereon dated April 29, 1993.

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 statement of expenses and fees incurred in Indonesia is free of material misstatement.

In planning and performing our audit of Indonesia cost incurred by DAI pertaining to its contract with USAID/I under the FID Project, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the statement of expenses and fees incurred in Indonesia and not to provide assurance on the internal control structure of DAI as a whole.

The management of DAI is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of statement of expenses and fees incurred in Indonesia in accordance with comprehensive basis of accounting other than 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 our consideration of the internal control structure, we have classified the significant internal control policies and procedures in the following categories :

Accounting Controls

- o Cash Disbursements
- o Petty Cash
- o Bank Reconciliation

Administrative Controls

- o Cost allocation and allowability
- o Monitoring
- o Reporting

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

As a result of these procedures, and in accordance with Government Auditing Standards, we have limited our reliance on the internal control structure, as given the small size of the Jakarta office, 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 statement of expenses and fees incurred in Indonesia.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our

attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the statement of expenses and fees incurred in Indonesia. These matters, along with our recommendations, are described in the accompanying observations on internal control structure on pages 13 to 17.

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

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. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information of DAI and U.S. Agency for International Development 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.

PRASETIO, UTOMO & CO.



Drs Soemarso S. R.
Registered Accountant No. D-1066

April 29, 1993

OBSERVATIONS ON INTERNAL CONTROL STRUCTURE

1. CHECKS ISSUED PAYABLE TO "CASH"

Condition

We observed that the checks drawn by the Chief of Party from the rupiah bank account to replenish petty cash fund were issued payable to "Cash".

Criteria

For better control over disbursements, checks should be issued payable to the name of the payee.

Effect

The practice of issuing checks payable to "Cash", although such checks are personally encashed by the Chief of Party, is risky because such checks can be easily encashed once these are lost.

Cause

This had been the practice as DAI Jakarta office is not aware of the risks involved. So far, there were no cases of checks being lost and encashed by unauthorized person.

Recommendation

We suggest that DAI Jakarta office avoid issuing checks payable to "Cash". This serves to increase security over disbursements.

Management's Comments

Agree with the auditors' comments. However, the Chief of Party stressed that the checks can only be drawn against two bank branches in Indonesia and if lost, the payments could be quickly stopped.

2. NO IMPREST SYSTEM FOR PETTY CASH FUND

Condition

We observed that DAI Jakarta office does not maintain an imprest system for its petty cash. Whenever the available fund runs low, checks of Rp 5 million (about US\$ 2,500) to Rp 6 million (about US\$ 3,000) are normally drawn without taking into account the remaining balance of the previous fund.

In addition, we noted the following practices:

1. The Chief of Party, who issues the checks, only approves disbursements of more than Rp 100,000 (US\$ 50) at the time the Monthly FID Project Expenditures Voucher is being prepared and not at the time when such disbursements are presented for actual payment.
2. Whenever the amount of petty cash fund runs low, the administrative staff verbally informs the Chief of Party for replenishment. No written request for cash to replenish the fund is prepared.
3. The monthly checks drawn by the Chief of Party from rupiah bank account, maintained in the American Express Bank to be used as petty cash fund, is turned over to the administrative staff without the latter's acknowledgement of receipt for the purpose of maintaining fund accountability.
4. The salary of the administrative staff, who happens to be the custodian, which is around US\$ 500 a month is taken from the same petty cash fund.

Criteria

Sound internal control for petty cash management requires application of an imprest system.

Effect

Considering the significant amount of cash drawn for petty cash fund, it is difficult to maintain and determine accountability of the funds because it is not fixed to a certain amount.

Cause

DAI Jakarta office does not recognize the need for an imprest system for petty cash fund since the petty cash custodian is able to account for the closing cash balance at month-end based on the opening balance plus the cash receipts through the Chief of Party's check encashments less expenditures.

Recommendation

An imprest system should be implemented to effectively control disbursements from petty cash fund. This means that the balance of petty cash vouchers and the cash on hand should always equal to the established fixed amount of the fund. Significant petty cash disbursements should, at least, be approved by the Chief of Party before any payments are made.

Management's Comments

The Chief of Party is often out of Jakarta. It is necessary for the administrator/petty cash custodian to have a high level of discretion. No written request for replenishment is required. However, we do have a summary of expenditures, receipts, opening and closing balances to verify accountability.

3. SUPPORTING DOCUMENTATIONS NOT STAMPED "PAID"

Condition

All supporting documents such as invoices, petty cash vouchers and bills were not being stamped "PAID" at the time of payment.

Criteria

Sound internal control practice requires that supporting documents be stamped "PAID" at the time of payment.

Effect

This practice may lead to the possibility of documents being used again for reimbursement. No evidence of impropriety was, however, noted by us during the course of our audit as a result of this condition.

Cause

This has been the practice from the beginning as DAI Jakarta office does not recognize the need for such a procedure.

Recommendation

We recommend that DAI Jakarta office establish and implement a system to ensure that all supporting documents be effectively stamped "PAID" after payment to prevent resubmission for payment.

Management's Comments

We agree with the auditors' comments.

4. APPROVAL FOR INTERNATIONAL TRAVEL NOT FILED ACCORDINGLY

Condition

The written approvals from the Contracting Officer for international travel by field staff are kept in a separate file, mingled with approvals for other transactions. Also, we observed that it is not possible to check which of these approvals specifically correspond to the travel vouchers we selected for our test of transactions. In addition, the completeness of these approvals could not be ascertained.

Criteria

Good internal control dictates that documents and written approvals that support the validity of transactions should be filed properly.

Effect

Approvals could not be easily proven due to the condition of the filing system. Written approvals for international travels may also be misplaced or lost because of improper filing of supporting documents.

Cause

DAI Jakarta office did not consider the need for such a procedure.

Recommendation

We suggest that DAI Jakarta office consider improving their filing system.

Management's Comments

The Chief of Party agrees that not all requests and approvals are on file. However, he believes that every item of international travel was approved since all invoiced international travel expenses were allowed by USAID/I.



PRASETIO, UTOMO & CO.

REGISTERED PUBLIC ACCOUNTANTS

ARTHUR ANDERSEN & CO. SC

Chase Plaza
Jl. Jend. Sudirman Kav. 21
Jakarta 12920, Indonesia

Letter No. UO-6797

**Mr. Richard C. Thabet
Regional Inspector General
for Audit, Singapore
US Agency for International Development
111, North Bridge Road
#17-03, Peninsula Plaza
Singapore 0617**

Dear Mr. Thabet,

**FINANCIAL AUDIT OF DEVELOPMENT ALTERNATIVES, INC.
PERTAINING TO ITS TECHNICAL ASSISTANCE CONTRACT WITH
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT IN INDONESIA**

**INDEPENDENT AUDITORS' REPORT ON TEST OF COMPLIANCE
WITH CONTRACT TERMS, APPLICABLE LAWS AND REGULATIONS**

We have audited the statement of expenses and fees incurred in Indonesia by Development Alternatives, Inc. (DAI) pertaining to its contract No. AID 497-0341-C-00-5092-00 with United States Agency for International Development, Indonesia (USAID/I) under the Financial Institutions Development (FID) Project for the period February 18, 1986 to June 30, 1992, and have issued our report thereon dated April 29, 1993.

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 statement of expenses and fees incurred in Indonesia is free of material misstatement.

Compliance with laws, regulations, contracts, and binding policies and procedures applicable to DAI's contract with USAID/I under the FID Project is the responsibility of DAI's management. As part of our audit, we performed tests of DAI's compliance with certain provisions of laws, regulations, contracts, and binding policies and procedures. However, it should be noted that, we performed those tests of compliance as part of obtaining reasonable assurance about whether the statement of expenses and fees incurred in Indonesia is free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Material instances of non-compliance are violations of laws, regulations, contract provisions, or binding policies and procedures that cause us to conclude that the aggregation of misstatements resulting from these violations is material to the statement of expenses and fees incurred in Indonesia.

Our testing of transactions and records selected disclosed material instances of non-compliance with certain terms of the Contract, applicable laws and regulations, the effects of which have not been adjusted in the statement of expenses and fees incurred in Indonesia. The findings on non-compliance are presented in the accompanying observations on compliance with contract terms, applicable laws and regulations on pages 20 to 25.

We considered these material instances of non-compliance in forming our opinion on whether DAI's statement of expenses and fees incurred in Indonesia is presented fairly, in all material respects, in conformity with cash basis of accounting described in note 1 to the statement, and this report does not affect our report thereon dated April 29, 1993.

The results of our tests indicate that with respect to the items tested, except as mentioned in the fifth paragraph, DAI 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 DAI had not complied, in all material respects, with those provisions.

This report is intended solely for the information of DAI and US Agency for International Development 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.

PRASETIO, UTOMO & CO.



Drs Soemarso S. R.
Registered Accountant No. D-1066

April 29, 1993

**OBSERVATIONS ON COMPLIANCE WITH CONTRACT TERMS,
APPLICABLE LAWS AND REGULATIONS**

1. OVERHEAD

Condition

We performed test of reasonableness of overhead rates applied and noted that from January to August 1991, actual overhead rates used were underapplied as compared to the standard rates for the same period, with total effect of US\$ 1,900. Until the end of January 1993, no adjustments were made.

Criteria

The standard rates set forth in the Negotiated Indirect Costs Agreement (NICRA) dated January 29, 1990 and May 18, 1992 are as follows :

Field staff	68 %
Home office staff and intermittent	78 %
Overseas based associates	67 %

Effect

The lower rates used during the above period resulted to understatement of overhead amounting to US\$ 1,900.

Cause

Standard rates applied were based on NICRA which are usually approved a year after the expenses have already been incurred.

Recommendation

We recommend that DAI resolve the understated overhead reimbursement with USAID/I.

Management's Comments

As discussed with USAID/I, DAI Jakarta office will be reimbursed by the amount of US\$ 1,900.

2. FIXED FEES

Condition

DAI claimed and has been reimbursed for an excess amount of US\$ 641 with respect to fixed fees. The amount overclaimed is arrived at as follows:

	<u>Overclaimed Fixed Fee</u>
a. Computer and printer amounting to US\$ 7,003 purchased on June 1991 were included in the computation of fixed fee for the same month	
Effect : 5 % of US\$ 7,003	US\$ 350
b. Computer and printer amounting to US\$ 2,036 purchased on September 1991 were included in the computation of fixed fee for the same month	
Effect : 5 % of US\$ 2,036	102
c. Computer and printer amounting to US\$ 3,775 purchased on May 26, 1989 were recorded as part of "other direct costs", instead of "computers and printers" (see item 4)	
Effect : 5 % of US\$ 3,775	189
	US\$ 641

Condition

Article II, Section B of the contract agreement between USAID/I and DAI implies that computation of fixed fee is based on 5% of total cost excluding computers and printers.

Effect

An incorrect claim for reimbursement with respect to fixed fees has been made, resulting in unallowable cost of US\$ 641.

Cause

The fixed fee overclaimed in the amount of US\$ 452 (US\$ 350 plus US\$ 102) arose because DAI management included the computers and printers in total expenditures when computing the 5% fixed fee. On the other hand, the overclaimed amount of US\$ 189 arose from the misclassification of purchase of computer and printer under "Other Direct Costs".

Recommendation

It is recommended that DAI resolve the amount questioned with USAID/I and repay any amount determined to be unallowable.

Management Comments

We agree with the auditors' comments on items (a) and (b), and adjustments will be made in May, 1993 to take up these corrections on fixed fees.

For item (c), an adjustment was already made in April, 1993 to reclassify expenses for computers and printers from "Other Direct Costs" to "Computers and Printers". Accordingly, the corresponding fixed fee was reduced by US\$ 189. This adjustment has been incorporated into the final invoices to USAID.

3. LACK OF ACCOUNTING RECORDS

Condition

We noted that DAI did not maintain a disbursement book to record its payment of expenses on a chronological basis. No other records were maintained, except for the "Monthly Remaining Sheet" (MRS) which is supported by the necessary documents. The MRS presents the total budget amount, the actual expenses (current and cumulative) and the remaining budget.

Criteria

As set forth in Section 752.7003 of AID Handbook 14, books and records of expenses shall be maintained by the Contractor which shall be the basis in preparing the fiscal report to be submitted to the Contracting Officer.

Effect

Due to the absence of a disbursement book that would summarize the expenses paid as of a certain period, we independently summarized the expenditure line items as presented in the MRS maintained by DAI. Furthermore, we reconciled the balance of the expenses per this audit summary with the records maintained by USAID/I. This was performed to determine the cumulative expenses as of June 30, 1992. We noted that expenses totalling to US\$ 10,847 (net of rejections) were not included in the cumulative balance of expenses per the remaining sheet, therefore the statement of expenses and fees incurred in Indonesia presented on page 8 is understated. Please see Appendix B for the details.

Cause

The management of DAI was not aware of the need to maintain the records mentioned in the above criteria. Also, there is a lack of communication between DAI Washington and DAI Jakarta office concerning the actual expenses approved and paid by USAID/I, which resulted in the difference between the cumulative expenditures reported in the MRS prepared by DAI Jakarta office and the actual expenses reimbursed by USAID/I.

Recommendation

It is recommended that DAI take up the necessary corrections and adjust the account balances so that its fiscal report will fairly reflect the balance of expenses and fees as of June 30, 1992.

Management's Comments

We agree with the auditors' comments. Adjustments have been incorporated into the final invoices to USAID.

4. OTHER QUESTIONED COSTS

Condition

During the course of our audit, we came across the following expenses which were considered to be questionable:

- a. Salaries of the home office intermittent for the months of April and May 1991 amounting to US\$ 6,451 and US\$ 4,301, respectively, were reported under "overhead" totalling US\$ 10,752.

- b. Computer and printer purchased on May 26, 1989 amounting to US\$ 3,775 were recorded under "other direct costs" instead of the expense line item "computers and printers".
- c. The supporting bills for telephone expenses for the month of June 1988 totalled US\$ 502, but the amount claimed was US\$ 532. Also, the documents supporting the payment to overseas study tour organizers amounting to US\$ 120 was misplaced.

Criteria

Fiscal reports submitted to the Contracting Officer should be correct and the sum claimed under the Contract should be properly supported.

Effect

DAI Jakarta office have claimed costs totalling US\$ 150 which may be questionable and the expense line items "salaries", "overhead", "other direct costs" and "computers and printers" in the fiscal report for the period February 18, 1986 to June 30, 1992 include items which are misclassified.

Cause

DAI Jakarta office may have overlooked the USAID guidelines and contract requirements when making claims for expenses and when preparing the fiscal report.

Recommendation

We recommend that DAI Jakarta office make the necessary corrections and, if considered appropriate, take actions to refund the questioned costs to USAID/I.

Management's Comments

DAI has taken actions as follows:

- a. Salaries totalling US\$ 10,752 were reported "overhead".

This was corrected in Invoice No. 86 dated May 26, 1993: a deduction against "overhead" and a corresponding entry made for "home office intermittent".

- b. Computer and printer amounting to US \$ 3,775 recorded under "other direct cost".

This was corrected in Invoice No. 85 dated April 16, 1993: a deduction against "other direct costs" and "fixed fees" and an entry against "computers and printers" of US \$ 3,774.93.

- c. A discrepancy in telephone claim of US \$ 30 (US \$ 502 not US \$ 532) and the overseas study tour payment of US \$ 120.

We believe the error in the telephone claim was inadvertent. We are unable to find the receipt for the overseas study tour claim. We accept responsibility for the reimbursement of these amounts totalling US \$ 150.

DEVELOPMENT ALTERNATIVES, INC.
SCHEDULE OF QUESTIONED COSTS AS TO REASONABLENESS,
ALLOCABILITY AND ALLOWABILITY
(Non-compliance Issues)

COMPLIANCE FINDING NUMBER	CONDITION	BASIS OF QUESTIONABILITY	LINE ITEM	EFFECT ON	
				EXPENSES OVER (UNDER)	FEEES OVER (UNDER)
1	The actual rates used to calculate the overhead cost for the period January to August, 1991 were lower than the standard rates set forth in NICRA.	Reasonableness - understated overhead cost	Overhead	US\$ (1,900)	US\$
2	Certain expenses for computers and printers were included in computing the fixed fee.	Allowability - fixed fee not permissible under the terms of the Contract	Fixed fees		641
3	Lack of accounting records (See Appendix B)	Reasonableness - total expenses presented in fiscal report is overstated	Salaries Overhead Allowances Other direct costs Travel and transportation Fringe benefits Unidentified	556 641 2,762 531 1,875 432 285	
		- total fees presented in fiscal report is understated	Fixed fees		(17,929)

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DEVELOPMENT ALTERNATIVES, INC.
SCHEDULE OF QUESTIONED COSTS AS TO REASONABLENESS,
ALLOCABILITY AND ALLOWABILITY
(Non-compliance Issues)

COMPLIANCE FINDING NUMBER	CONDITION	BASIS OF QUESTIONABILITY	LINE ITEM	EFFECT ON	
				EXPENSES OVER (UNDER)	FEES OVER (UNDER)
				US\$	US\$
4	Misclassification of salaries of home office intermittent, should be salaries instead of overhead	Reasonableness - salaries expense line item is understated; overhead expense line item is overstated	Salaries Overhead	(10,752) 10,752	
4	Misclassification of expenses for computers and printers should be computers and printers instead of other direct costs (Effect on fixed fees already included in finding no. 2)	- computers and printers expense line item is understated; other direct costs expense line item is overstated	Other direct costs Computers and printers	3,775 (3,775)	
4	Document to support the payment for the tour organizer amounting to to US\$ 120 was lost and transposition error amounting to US\$ 30 was made in reporting the telephone bill	Allowability - expenses cannot be determined	Other direct costs	150	
	Total			5,332	(17,288)
				=====	=====

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DEVELOPMENT ALTERNATIVES, INC.
 RECONCILIATION OF AMOUNTS REIMBURSED BY USAID/I AND AMOUNTS REPORTED BY DAI
 UNDER THE FINANCIAL INSTITUTIONS DEVELOPMENT PROJECT
 FOR THE PERIOD FEBRUARY 18, 1986 TO JUNE 30, 1992
 AMOUNTS IN US DOLLARS

EXPENDITURE LINE ITEM	TOTAL PER MONTHLY FISCAL REPORT *	AMOUNTS REJECTED BY USAID/I	AMOUNTS REIMBURSED BY USAID/I	BALANCE PER FISCAL REPORT AS OF 6/30/92	OVERSTATED EXPENSES / (UNDERSTATED FIXED FEE) REPORTED IN FISCAL REPORT
Salaries	1,137,358	585	1,136,773	1,137,329	556
Overhead	848,352	1,061	847,291	847,932	641
Allowances	781,967	2,892	779,075	781,837	2,762
Other direct costs	292,171	862	291,309	291,840	531
Subcontracts	283,238	-	283,238	283,238	-
Travel and transportation	213,794	1,865	211,929	213,804	1,875
Fringe benefits	101,153	422	100,731	101,163	432
Computers and printers	39,457	-	39,457	39,457	-
Unidentified	-	285	(285)	-	285
TOTAL EXPENSES	3,697,490	7,972	3,689,518	3,696,600	7,082
Fixed fee	183,353	384	182,969	165,040	(17,929)
TOTAL EXPENSES PLUS FIXED FEE	3,880,843	8,356	3,872,487	3,861,640	(10,847)
	=====	=====	=====	=====	=====

* Includes Home office support cost and Indonesia cost.

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FINANCIAL INSTITUTIONS DEVELOPMENT PROJECT (FID)



DEVELOPMENT ALTERNATIVES, INC.
Jl. Teuku Cik Ditiro 29A,
JAKARTA 10310
INDONESIA

Prasetio, Utomo & Co.,
Chase Plaza 8th Floor,
Jl. Jend. Sudirman Kav 21,
Jakarta 12920, Indonesia.

October 28, 1993.

Dear Sir/Madam,

Re: Audit of Development Alternatives, Inc. with respect to the USAID Financial Institutions Developments Project.

Development Alternatives, Inc. (DAI) has reviewed the observations on its internal control structure in the draft report and has the following comments:

1. The reporting of management's comments as outlined in the report are essentially correct.

2. DAI has taken steps to follow the recommendations contained in the report. Specifically all recommendations made in section "2.FIXED FEES" and "3.LACK OF ACCOUNTING RECORDS" have been incorporated into the final invoices to USAID.

3. Concerning section "4. OTHER QUESTIONED COSTS" DAI has taken actions as follows:

a. Salaries totalling \$10,752 were reported under "overhead".

This was corrected in Invoice No.86 dated 26 May 1993: a deduction against "overhead" and a corresponding entry made for "Home Office Intermittent".

b. Computer and printer amounting to \$3,775 recorded under "Other Direct Costs".

This was corrected in Invoice No. 85 dated 16 April 1993: a deduction against "other direct costs" and "fee" and an entry against "Computers and Printers" of \$3,774.93.

c. A discrepancy in telephone claim of \$30 (\$502 not \$532) and the overseas study tour payment of \$120.

We believe the error in the telephone claim was inadvertent. We are unable to find the receipt for the overseas study tour claim. We accept responsibility for the reimbursement of these amounts totalling \$150.

Yours sincerely,

D.A. Lucock

David A. Lucock,
Chief of Party, DAI.

APPENDIX D

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