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CATHOLIC RELIEF SERVICES BOMBAY

FINAL AUDIT REPORT

April 1, 1993 to March 31, 1994

LOVELOCK & LEWES

[a member firm of *Coopers & Lybrand* (International)]

CATHOLIC RELIEF SERVICES (CRS)

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CATHOLIC RELIEF SERVICES

Bombay Zone
St. Mary's - 3rd Floor,
Nesbit Road, Mazagaon,
BOMBAY - 400 010.

This report presents the results of our audit of CATHOLIC RELIEF SERVICES (CRS), India pertaining to PL 480 Title II Program and Strengthening Grant activities at the sub-recipient levels for Bombay Zone for the period between April 1, 1993 and March 31, 1994.

The funding under the Strengthening Grant at the recipient level (Bombay Zonal Office) is beyond our scope of work. The term CRS referred to in our audit report hereafter means **Bombay Zone of CRS.**

BACK GROUND

India is the seventh largest country in the world covering an area of some 3.3 Sq.km. and a population of around 900 million people.

Alleviation of poverty continues to be a major concern of development planning in India. Keeping in view the goal of near full-employment by the turn of the century, in the interim period, the provision of short term employment of the unemployed and underemployed, particularly among the poor and the vulnerable, is considered necessary. The strategy adopted is to focus not only on the creation of new jobs, but also on the augmentation of the existing employment in terms of productivity and incomes through suitable technology, market and institutional interventions.

Nutrition and health education (a major concern of the Government of India) was stepped up in the earlier 5 year plans through inputs in the school curriculum, training courses of medical and allied health professional and other field level functionaries, use of mass, folk and other non-formal communication media, the maternity and child services network and other specific programs like Integrated Child Development Program. (Source: Economic Survey of the Government of India 1992/93).

In an attempt to boost productivity and general living conditions of the Indian people, a large number of Private Voluntary Organizations (PVO) and Government institutions are working together on variety of socio-economic based initiatives and projects. One such PVO involved in these projects is CRS.

CATHOLIC RELIEF SERVICES -- IT'S OPERATIONS AND PROGRAMS

CRS/India operates under the Bilateral Indo-US Agreement signed in 1951. The US Government provides Food for Peace program commodities, pays their ocean freight and delivers them to the ports of Bombay, Calcutta and Madras. The U.S. Government has also provided a Grant to CRS for the strengthening of its own management and that of its primary sub-recipients for Bombay Zone and Calcutta Zone. No such grant has been provided to Madras Zone.

CRS cooperates with United States Agency for International Development (USAID) and Ministry of Welfare of Government of India in the matters related to the Indo-US Agreement.

CRS is conducting the following programs supported by PL 480 Title II Food Program:-

- Maternal Child Health (MCH)
- School Feeding (SF)
- Other Child Feeding (OCF)
- Individual Health Cases (IHC)
- Food for Work (FFW)
- Nursery and Creche*

*N/C was not considered in the request for Proposal Documents

Commodity tonnage for the year ending March 31, 1994 with an estimated beneficiary level of 1.83.700 is 11,701 MT with a CIF value approximately US\$ 44.68.243. US Government commodities utilised under this program include Corn Soya Blend (CSB), Bulgur Wheat and Vegetable oil. These commodities are distributed through 502 distribution centers.

As cooperating Sponsor, CRS is held accountable by the US Government for the proper handling and accounting of PL 480 Title II Commodities and related funds. Among other responsibilities, this involves preparing multi-year and annual strategic and operational plans, reporting to the US Government, monitoring commodity management and record keeping by sub-recipients and ensuring that appropriate corrective actions are taken to redress problems at all levels identified in internal and external reviews of the PL 480 Title II program.

CRS-Bombay currently has 20 primary sub-recipients co-operating in the execution of its PL 480 Title II program. The Primary sub-recipients (Counterparts) manage nearly 502 secondary sub-recipients (Operating Partners) which are engaged in actual project implementation. Each primary sub-recipient maintains staff which may include field workers, accountants, logisticians, warehouse personnel etc., to fulfill these responsibilities. The 12 primary sub-recipients covered in this audit have responsibilities for approximately 329 secondary sub-recipients.

The Strengthening Grant, includes US\$ 11,374 of expenditure made for the period April 1, 1993 to March 31, 1994. These funds have been spent largely for salaries and fringes for CRS sub-recipient staff and sub-recipient warehouse facilities and improvements.

The size, diversity and dispersion of CRS activities is awesome and cover some of the remotest parts of India, fulfilling some of the basic needs of the rural poor and underprivileged through appropriate distribution of food, generation of employment and assets and health care.

Audit Objectives, Scope of Work and Methodology

Audit Objectives

We have conducted an audit of Catholic Relief Services -- India's Fund Accountability Statement as it relates to PL 480 Title II Program and also Strengthening Grant received from the US AID for the period April 1, 1993 to March 31, 1994 for Bombay Zone.

Our audit covers the areas administered by Bombay Zonal Office of CRS as set out below in terms of the Agreement dated July 1, 1994, between us and CRS-INDIA.

The Fund Accountability Statement comprises of the Receipts and Expenditure Statement and the Commodity accountability reports comprises of the Receipts and Issue Statement for Grant PL 480 Title II Program for the period April 1, 1993 to March 31, 1994 and the notes thereon. The results of our work are reflected in the accompanying Independent Auditor's Reports on the:

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

The objectives of our work were to :-

- (a) Determine whether the Fund Accountability Statement for CRS presents fairly the receipts, expenditures and closing cash balances of CRS as they pertain to its Strengthening Grant and also PL 480 Title II Program for the period noted above and in accordance with the terms of the Grant Agreement.
- (b) Report on Commodity Accountability Reports showing opening balance, receipts, distributions, losses and closing balance, as they pertain to PL 480 Title II Program.

- (c) Report on CRS's internal accounting controls;
- (d) Report on CRS's compliance with applicable laws, regulations, agreement terms, binding policies and procedures; and
- (e) Report on General compliance

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 audit objectives.

Scope of Work and Methodology

The scope of our work and methodology included the following general procedures :

- (a) Holding meetings with CRS, India at New Delhi and Bombay. We have had extensive discussions with Mr. Don Rogers, Mr. John McLaughlin, Mr. B.S.Chhayapati, Mr. S.E.Modak, Mr. Paul Kombar of CRS, India.
- (b) Reviewing the Grant Agreement and appropriate amendments, OMB circulars, AID handbook regulations, prior period audit reports on CRS statements, correspondence and minutes of meetings of CRS Baltimore & CRS India;
- (c) Obtaining an understanding of the accounting, administrative and internal control systems of CRS using questionnaires, interviews, and narrative descriptions;
- (d) Devising and performing appropriate tests on the transactions recorded in the Fund Accountability Statements and the Commodity Accountability Reports through extensive substantive testing methods. Our audit coverage has been over 50% of the value of the total transactions under our scope of work and in our opinion, is considered adequate for expressing an opinion;
- (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 a direct and material effect on the results of our audit.
- (f) Testing the effectiveness of administrative controls applied by CRS's management to ensure compliance with applicable laws, regulations and agreement terms; and
- (g) Training of our Staff deputed for the assignment on the relevant AID regulations and practical realities that exist in conducting an audit of this nature.
- (h) We had also arranged for orientation of the incharge auditors at the field, along with CRS officials in Ahmedabad and Ajmer prior to commencement of the audit for having an idea of the actual projects and ground realities.

i) There have been exit meetings at the field and zonal level to exchange the ideas and responses to our observations. The "Point Sheets" showing the individual observations, criteria, cause, effect, our recommendation and the management comments at field levels have already been handed over to the Zonal Office and at the field and hence not included in this report as a distinct matter.

We have discussed the draft report with the management at the Zonal Office. In this final report, we have incorporated the comments of the Zonal Office, which is also separately included in Appendix-2.

Love Lock & Lewes

LOVELOCK & LEWES
Chartered Accountants

NEW DELHI

7 December 1994

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**CRS--BOMBAY
PL 480 TITLE II PROGRAM**

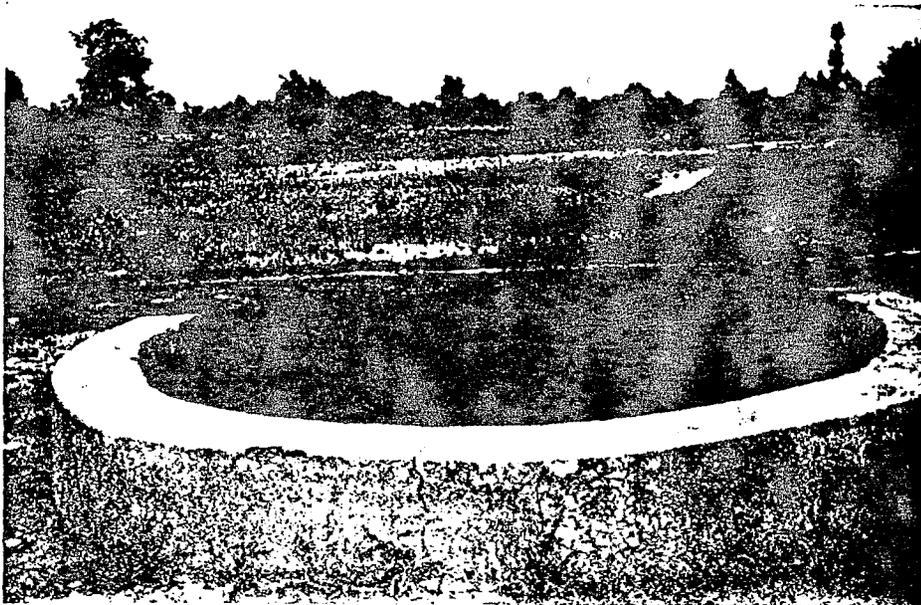
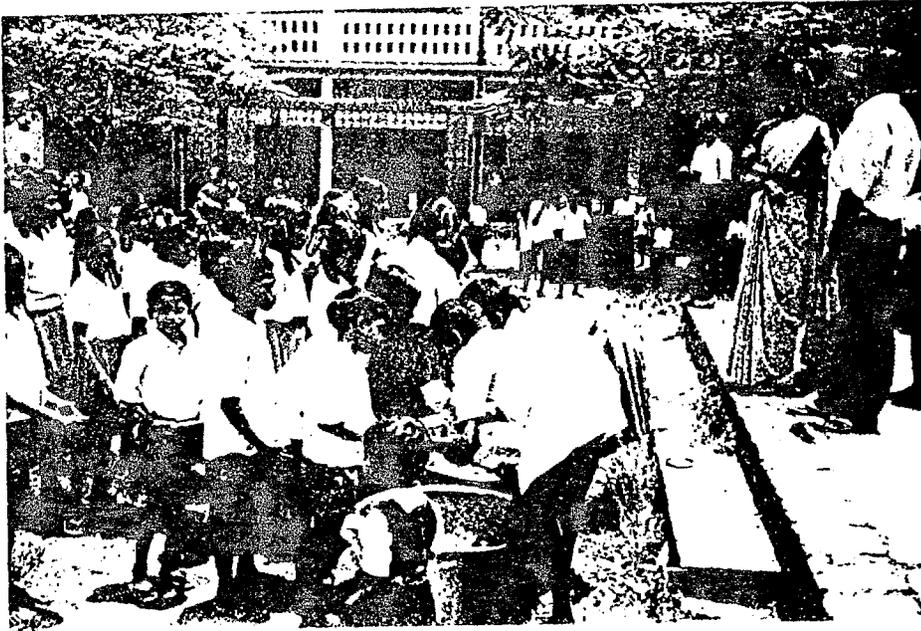
**LIST OF PRIMARY SUB-RECIPIENTS (COUNTERPARTS) AND SECONDARY
SUB-RECIPIENTS (OPERATING PARTNERS) INCLUDED IN THE COVERAGE
OF THIS AUDIT**

	COUNTERPARTS	OPERATING PARTNERS
1.	Nagpur	Gothangaon Mrs. Chitale Chhaoni Sis. Aquila
2.	Jagdalpur	Kanker Karithgaon Adawal Koppaguda Kothagaon
3.	Valsad	Bhensdhara Unai Zankhvav Sagbara Gothada
4.	Khanwel	Khanwal Dapadda Chisda Shelti
5.	Ahmedabad	Vijaynagar Radhanpur Sanand
6.	Andheri	Thane Vile-Parle Andheri Borivli
7.	Mahim	Sneh Jeevan Kendra Community Outreach Programme Observation Home (Umarkhedi)

Catholic Relief Services, Bombay Zone

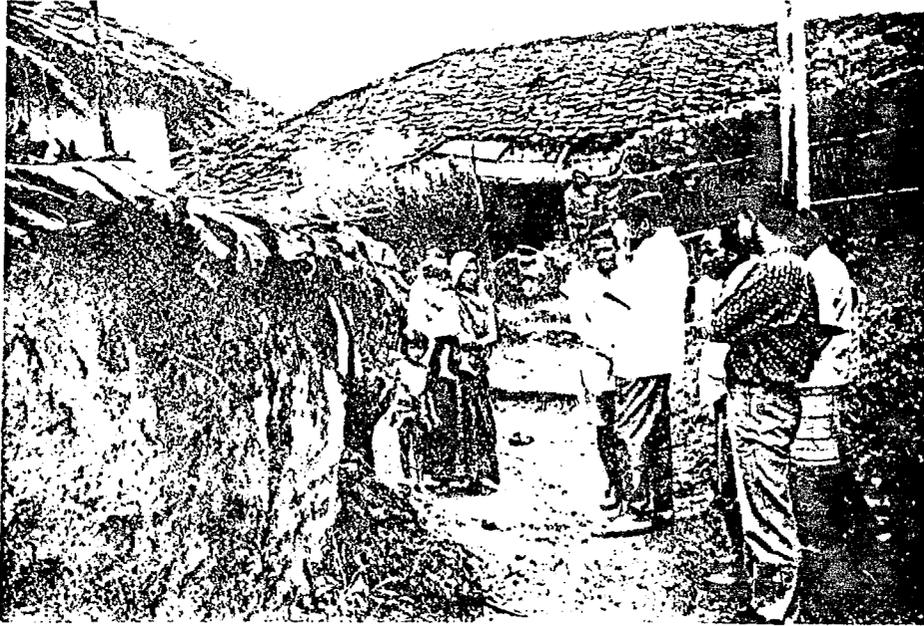
- | | | |
|-----|------------|---|
| 8. | Kunkuri | Gholeng
Jaspurnagar
Bairbandh |
| 9. | Ambikapur | Balrampur
Bargawan
Patera
Bishrampur-2 |
| 10. | Khandwa | Missionaries of Charity (Ashadham)
Karpur
Bhagwanpur
St. Mary's Girls Hostel |
| 11. | Sagar | Semeri
Pratapgarh
Searmau
Noelle Missionary |
| 12. | Dharamsala | Cantonment
CTRC |

School Feeding at an OP visited by us



A completed Food for Work project

Beneficiaries being interviewed



CRS - BOMBAY

INDEPENDENT AUDITORS REPORT ON STRENGTHENING
GRANT FUND ACCOUNTABILITY STATEMENT

SUB-RECIPIENT

1. We have audited the Fund Accountability Statement for US Government Funds under CRS Bombay Strengthening Grant Program (Appendix 2) for the period from April 1, 1993 to March 31, 1994. The Fund Accountability Statement is the responsibility of CRS management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards and U.S. Government Auditing Standards, issued by the Comptroller General of United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statement. An audit also includes assessing the accounting principles used and significant estimates made by CRS management as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3.
 - (i) The Fund Accountability Statement for US Government Funds (Appendix 2) does not reflect the loans taken from and repaid to CP's institutions/others during the year.
 - (ii) Interest on Foreign Contribution Regulation Act (FCRA) (Savings Bank) deposits of Strengthening Grant Funds has not been considered as fund income except in few CP's. The amount of such interest has not been ascertained as the Strengthening Grant is commingled with other FCRA Funds received by the CP's from the donors.
4. Except for the matters set out in paragraph 3 above and our observations in Appendix 10, the Fund Accountability Statement for US Government Funds (Appendix 2) referred to above presents fairly, in all material respects, revenues received and expenditure incurred for the period in conformity with the basis of accounting described in Notes to the Fund Accountability Statement (Appendix 2).
5. This report is intended for the use of management and others within CRS.

Loveboth & Lewes

LOVELOCK & LEWES
Chartered Accountants

New Delhi
14/11/1994

CRS BOMBAY
FUND ACCOUNTABILITY STATEMENT FOR THE SUB-RECIPIENTS FOR THE
PERIOD FROM APRIL 1, 1993 TO MARCH 31, 1994.

STRENGTHENING GRANT

Particulars	Amount Rs.	US\$ Equivalent
A. OPENING BALANCE	(6,418)	(213.93)
ADJUSTMENTS ¹	6,169	205.63
	(249)	(8.30)
RECEIPTS		
Grants Received	3,53,280	11,776.00
B. TOTAL RECEIPTS	3,53,280	11,776.00
PAYMENTS		
Salary	3,00,938	10,031.27
Warehouse Maintenance	40,097	1,336.57
Bank Charges	185	6.16
C. TOTAL PAYMENTS	3,41,220	11,374.00
D. CLOSING BALANCE (A + B - C)	11,811	393.70

(US\$ Equivalent : 1 US\$ = Rs.30.00)

NOTES : ACCOUNTING POLICY

1. The Fund Accountability Statement is prepared in accordance with the historical cost convention. Indian Rupee amounts have been translated to their US dollar equivalent at 1 US\$ = Rs 30.00.

2. Receipts and expenditure relate to amounts received and paid in cash. The fund surplus for the period represents closing Cash and Bank Balances.

* Adjustments are book adjustments and no further action is necessary.

CRS -- BOMBAY

**THE INDEPENDENT AUDITORS REPORT ON PL 480 TITLE II FUNDS
FUND ACCOUNTABILITY STATEMENT
SUB-RECIPIENT**

1. We have audited the Fund Accountability Report under CRS/Bombay under PL 480 Title II Program for the period April 1, 1993 to March 31, 1994 (Appendix 3). The Fund Accountability Statement is the responsibility of CRS management. Our responsibility is to express an opinion on the Fund Accountability Report based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards and U.S. Government Auditing Standards, issued by the Comptroller General of United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statement. An audit also includes assessing the accounting principles used and significant estimates made by CRS management as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. Our audit revealed the following reportable conditions which are described in detail on Appendix 4.
 - (a) In our opinion, a transaction of placing a deposit with a Company of Rs.1,25,000 (US\$ 4,167) is not allowable for Title II Program, out of a total expenditure of Rs.21,02,112 (US\$ 70,070) verified by us.
 - (b) Payments totalling Rs. 86,830 (US\$ 2,894) out of Rs.21,02,112 (US\$ 70,070) verified by us were not supported by adequate documentation due to destruction of documents by termites. As a result we are unable to determine whether such expenses are reasonable, allocable and allowable.
4. Except for the matter set out in paragraph 3 above and our observations in Appendix 8, the Fund Accountability Statement under PL 480 Title II Program (Appendix 3) referred to above presents fairly, in all materials respects, revenues received and expenditure incurred for the above period in conformity with the basis of accounting described in Notes to the Fund Accountability Statement (Appendix 3).
5. This report is intended for the use of management and others within CRS.

Lovelock & Lewes

LOVELOCK & LEWES
Chartered Accountants

NEW DELHI
12, BANGALORE ROAD

CRS BOMBAY
PL 480 TITLE II PROGRAM

Appendix 3

FUND ACCOUNTABILITY STATEMENT FOR THE SUB-RECIPIENTS FOR THE
PERIOD FROM APRIL 1, 1993 TO MARCH 31, 1994.

Particulars	Total Amount (Rs.)	US\$ Equivalent
A. OPENING BALANCE	5,20,502	17,350.07
ADD: RECEIPTS		
Operating Partners	15,39,052	51,301.73
Sale of Empties	6,097	203.23
Transportation	1,17,942	3,931.40
Zonal Receipts	3,20,131	10,671.03
Other Receipts	12,03,818	40,127.27
B. TOTAL RECEIPTS	31,87,040	1,06,234.66
LESS: PAYMENTS		
Salaries	2,17,479	7,249.30
Transportation	8,73,888	29,129.60
Warehouse Maintenance	90,070	3,002.33
Office Conveyance	1,10,658	3,688.60
Zonal Office	1,48,479	4,949.30
Other Expenses	<u>13,00,396</u>	<u>43,346.53</u>
C. TOTAL PAYMENTS	27,40,970	91,365.66
D. CLOSING BALANCE: (A + B - C)	9,66,572	32,219.07

Catholic Relief Services, Bombay Zone.

NOTES:

ACCOUNTING POLICY

- (a) The Fund Accountability Statement is prepared in accordance with the historical cost convention. Indian Rupee amounts have been translated to their US Dollar equivalent at 1 US\$ = Rs. 30.00.
- (b) Receipts and expenditure relate to amounts received and paid in cash. The fund surplus for the period represents closing cash and bank balances.

CRS BOMBAY

Appendix 4

PL 480 TITLE II PROGRAMME

STATEMENT OF QUESTIONED AND INADEQUATELY SUPPORTED
TRANSACTIONS FOR THE PERIOD 1.4.1993 TO 31.3.1994

Name of CP	Month	Amount Rupees	Particulars	Disallowed under regulation 211/Unsupported
CP Ahmedabad	Nov, 93	1,25,000 ----- (US\$ 4,167)	Fixed Deposit placed with Gujarat Rural Housing Finance Ltd.	1,25,000 ----- (US\$ 4,167)
CP Nagpur	April, 93 to Aug., 93	86,830 (US\$ 2,894)	The supporting vouchers were significantly damaged by termites and we were unable to verify them	86,830 (US\$ 2,894)

CRS -- BOMBAY

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

ZONAL OFFICE

1. We have audited the attached Commodity Accountability Report under CRS--Bombay under PL 480 Title II Program for the period April 1, 1993 to March 31, 1994 (Appendix 5). The Commodity Accountability Report is the responsibility of CRS--Bombay management. Our responsibility is to express an opinion on the Commodity Accountability Report based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards and U.S. Government Auditing Standards, issued by the Comptroller General of United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the Commodity Accountability Report is free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by CRS--Bombay management as well as evaluating the overall report presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, Subject to observations in Appendix 7 under CRS--Bombay PL 480 Title II Program referred to above presents fairly, in all material respects commodities received and distributed for the respective periods.
4. This report is intended for the use of management and others within CRS.

New Delhi
22 December 1994

Lovelock & Lewes
LOVELOCK & LEWES
Chartered Accountants

CRS BOMBAY

Appendix 5

PL 480 - TITLE II PROGRAMME

COMMODITY ACCOUNTABILITY REPORT FOR THE PERIOD
APRIL 1, 1993 TO MARCH 31, 1994.

ZONAL OFFICE

PARTICULARS	BULGUR Kgs	OH. Kgs	CSB Kgs
A. OPENING			
BALANCE	31,31,200	20,412	4,50,675
As At April 1, 1993			
Stock lying at Warehouse			
RECEIPTS			
As per Bill of Lading	98,18,750	8,00,007	10,82,650
Others	41,277	3,453	
B. TOTAL RECEIPTS	98,60,027	8,03,460	10,82,650
C. ISSUES to the CPs	1,22,00,750	7,30,524	15,17,975
LOSS			
Marine Loss			
Adjustment	5,24,827	606	15,350
D. TOTAL LOSS	5,24,827	606	15,350
E. CLOSING			
BALANCE	2,65,650	92,742	
as at March 31, 1994 of			
stock lying at C & F			
Warehouse			
(A + B - C - D)			

NOTE: The above statement reflects the position of stock at Zonal Level.

CRS -- BOMBAY

**THE INDEPENDENT AUDITORS' REPORT
ON COMMODITY ACCOUNTABILITY REPORT**

SUB-RECIPIENT

1. We have audited the attached Commodity Accountability Report under CRS--Bombay under PL 480 Title II Program for the period April 1, 1993 to March 31, 1994 (Appendix 6). The Commodity Accountability Report is the responsibility of CRS--Bombay management. Our responsibility is to express an opinion on the Commodity Accountability Report based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards and U.S. Government Auditing Standards, issued by the Comptroller General of United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the Commodity Accountability Report is free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by CRS--Bombay management as well as evaluating the overall report presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, Subject to observations in Appendix 7 under CRS--Bombay PL 480 Title II Program referred to above presents fairly, in all material respects commodities received and distributed for the respective periods.
4. This report is intended for the use of management and others within CRS.

New Delhi
17 December, 1994.

Lovelock & Lewes
LOVELOCK & LEWES
Chartered Accountants

CRS BOMBAY

Appendix 6

PL 480 - TITLE II PROGRAM

SUMMARIZED COMMODITY ACCOUNTABILITY REPORT FOR THE PERIOD
APRIL 1, 1993 TO MARCH 31, 1994.

SUB RECIPIENT

PARTICULARS	BULGUR Kgs	OIL Kgs	CSB Kgs
Opening Inventory	15,39,157	4,43,437	1,00,642
Receipts			
Zonal Office	1,22,00,750	7,30,524	15,17,975
Transfers	19,748	6,817	975
Others	6,998	16	-
Total Receipts	1,22,27,496	7,37,357	15,18,950
Total Available	1,37,66,653	11,80,794	16,19,592
Total Distribution	1,23,08,171	10,58,672	12,67,365
Balance	14,58,482	1,22,122	3,52,227
Less: Adjustments			
Inland Losses	1,27,693	4,131	27,927
Others		115	
Total Adjustments	1,27,693	4,246	27,927
Closing Balance	13,30,789	1,17,876	3,24,300

CRS -- BOMBAY

**PERTAINING TO PL 480 TITLE II FOOD PROGRAM AND
STRENGTHENING GRANT WITH THE UNITED STATES AGENCY
FOR INTERNATIONAL DEVELOPMENT IN INDIA**

ZONAL OFFICE

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

1. We have audited the Fund Accountability Statement and Commodity Accountability Report of CRS--Bombay under PL 480 Title II Program and also strengthening grant under US AID for the period April 1, 1993 to March 31, 1994.
2. We conducted our audit in accordance with generally accepted auditing standards and U.S. Government Auditing Standards, issued by the Comptroller General of 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.
3. In planning and performing our audit of CRS, Bombay, 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 CRS, Bombay as a whole.
4. The management of CRS, Bombay 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 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 may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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

Accounting/Administrative Controls :

- Cash and Commodity receipts
- Disbursements/Distribution
- Warehouse and Inventory Control
- Reporting

6. For the internal control structure categories listed above, we obtained an understanding of the design relevant policies and procedures, determined whether they are effective in operation, and we assessed control risk.

7. 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 nature and size of the entity, an adequate structure for the purpose of audit reliance was considered not to be in existence. As a consequence, we adopted a substantive testing approach in our audit of the Fund Accountability Statement.

8. 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 established standards. 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 judgment, could adversely affect the organization's ability to record, process, summarize and report financial data, consistent with the assertions of management, in the financial statements.

9. Our audit revealed the following reportable conditions, which are described in detail on Appendix 9.

10. A material weakness is a condition in which the design or operation of the specific internal control structure elements do 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.

Catholic Relief Services, Bombay Zone.

11. 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 in Appendix 9 in paragraph 9 above are material weaknesses.

12. This report is intended for the use of management and others within CRS.

New Delhi
17 December 1994.

Lovelock & Lewis
LOVELOCK & LEWIS
Chartered Accountants

CRS - BOMBAY

**PERTAINING TO PL. 480 - TITLE II FOOD PROGRAM AND
STRENGTHENING GRANT WITH THE UNITED STATES AGENCY
FOR INTERNATIONAL DEVELOPMENT IN INDIA**

SUB-RECIPIENT

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

1. We have audited the Fund Accountability Statement and Commodity Accountability Report of CRS--Bombay under PL 480 Title II Program and also strengthening grant under US AID for the period April 1, 1993 to March 31, 1994.
2. We conducted our audit in accordance with generally accepted auditing standards and U.S. Government Auditing Standards, issued by the Comptroller General of 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.
3. In planning and performing our audit of CRS, Bombay, 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 CRS, Bombay as a whole.
4. The management CRS, Bombay 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 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 may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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

Accounting/Administrative Controls :

- Cash and Commodity receipts
- Disbursements/Distribution
- Warehouse and Inventory Control
- Reporting

6. For 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.

7. 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 nature and size of the entity, an adequate structure for the purpose of audit reliance was considered not to be in existence. As a consequence, we adopted a substantive testing approach in our audit of the Fund Accountability Statement.

8. 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 established standards. 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 judgment, could adversely affect the organizations' ability to record, process, summarize and report financial data, consistent with the assertions of management, in the financial statements.

9. Our audit revealed the following reportable conditions, which are described in detail on Appendix 9.

10. A material weakness is a condition in which the design or operation of the specific internal control structure elements do 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.

Catholic Relief Services, Bombay Zone.

11. 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 in Appendix 9 in paragraph 9 above are material weaknesses.

12. This report is intended for the use of management and other within CRS.

New Delhi
17 December 1984.

LoveLock & Lewes
LOVELOCK & LEWES
Chartered Accountants

CRS -- BOMBAY

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

ZONAL OFFICE

1. We have audited the Commodity Accountability Reports and Fund Accountability Statements under Strengthening Grant and Title II Program pertaining to PL 480 with the United States Agency for International Development (US AID) for the period April 1, 1993 to March 31, 1994.
2. We conducted our audit in accordance with generally accepted auditing standards and U.S. Government Auditing Standards, issued by the Comptroller General of 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.
3. Compliance with agreement terms and laws and regulations applicable to the program and binding policies and procedures and general compliances applicable to CRS is the responsibility of CRS's Management. As part of obtaining reasonable assurance as to whether the Commodity Accountability Reports and Fund Accountability Statements are free of material misstatement, we performed tests on CRS for compliance with certain provisions of laws, regulations, agreements, grants and binding policies and procedures. However, our objective was not to provide an opinion on compliance with such provisions.
4. Results of our tests, disclosed with respect to the items tested, instances of non-compliance with the agreement, laws and regulations and binding policies and procedures and general compliances. The findings on non-compliance have been set out in the accompanying Appendix 7 and 8.
5. Except as described above, the results of our tests of compliances indicate that with respect to the items tested, CRS complied in all material respects, with the provisions referred to above. With respect of items not tested, nothing came to our attention that caused us believe that CRS had not complied, in all material respects, with those provisions.
6. This report is intended for the use of management and others within CRS.

Noted
27 December 1994.

Lovelock & Lewes
LOVELOCK & LEWES
Chartered Accountants

CRS -- BOMBAY

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

SUB-RECIPIENT

1. We have audited the Commodity Accountability Report and Fund Accountability Statement under Strengthening Grant and Title II Program pertaining to PL 480 with the United States Agency for International Development (US AID) for the period April 1, 1993 to March 31, 1994.
2. We conducted our audit in accordance with generally accepted auditing standards and U.S. Government Auditing Standards, issued by the Comptroller General of 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.
3. Compliance with agreement terms and laws and regulations applicable to the program and binding policies and procedures and general compliances applicable to CRS is the responsibility of CRS's Management. As part of obtaining reasonable assurance as to whether the Commodity Accountability Reports and Fund Accountability Statements are free of material misstatement, we performed tests on CRS for compliance with certain provisions of laws, regulations, agreements, grants and binding policies and procedures. However, our objective was not to provide an opinion on compliance with such provisions.
4. Results of our tests, disclosed with respect to the items tested, instances of non-compliance with the agreement, laws and regulations and binding policies and procedures and general compliances. The findings on non-compliance have been set out in the accompanying Appendix 7 and 8.
5. Except as described above, the results of our tests of compliances indicate that with respect to the items tested, CRS complied in all material respects, with the provisions referred to above. With respect of items not tested, nothing came to our attention that caused us believe that CRS had not complied, in all material respects, with those provisions.
6. This report is intended for the use of management and others within CRS.

7 December 1994
New Delhi

LoveLock & Lewes
LOVELOCK & LEWES
Chartered Accountants

PROGRAMME SUPERVISION AND OPERATIONS

PROJECT MONITORING

Finding 1.

CRS operates through a network of Private Voluntary Organisations (PVOs) to implement the programme objectives of Title II. CRS under an agreement with the Counterpart (CP) makes the CP directly responsible for implementation who in turn enters into an agreement with the Operating Partner (OP) for actual programme implementation. CRS also supervises the programme through internal reviews, controls through well laid out manuals, zonal reviews. However, given the size and dispersal of activities in certain CP's, the staff strength of these CP's namely Dharamsala and Mahim are inadequate. We understand that CRS with Baltimore have already undertaken a study of the staff needs in 1990-91.

Recommendation 1.

CRS may relook at the option of extending Strengthening Grant for staff and training to the CP's which are not fully equipped to monitor the programme effectively in addition to the report of 1990-91, since there is a significant change in the level of operations since then.

Finding 2.

There are times where post facto approval is given for FFW - vocational training.

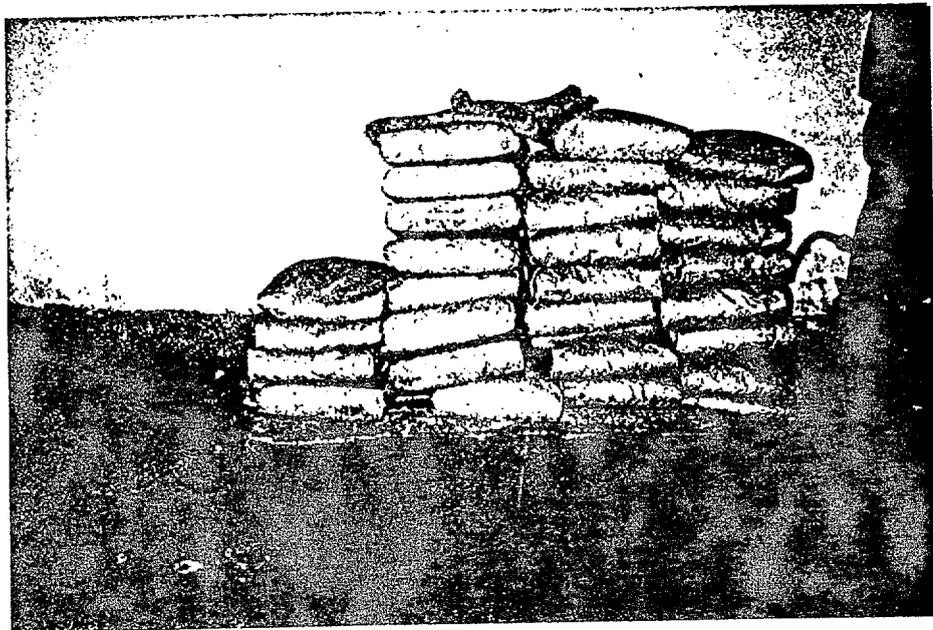
Recommendation 2.

We recommend that the manual should be amended to include vocational training as a 'regular programme'.

COMMODITY DISTRIBUTION AND ACCOUNTABILITY

Finding 1

CRS operates through KYOP and distributes food in accordance with the Annual Estimates and requirements of the programme. We have noticed in large number of CP's during our visit viz. Dharamsala, Naggpur, Ambikapur, Valsad, Mahim, Jagdalpur and Andheri and at their OP's, that there has been non-availability of stocks during the year leading to a break in the programmes. This results in non distribution of commodities to the beneficiaries. The photograph below of an OP at Ambikapur adequately demonstrates the low stock position during our visit.



There are ground realities e.g. the food being received late due to various reasons leading to delays beyond the control of CRS. CRS/BO has taken up these matters with New York Shipping, TRIFED, US AID/Delhi, Ministry of Welfare, Ministry of Railways, CRS Delhi, etc. to ensure that commodities reach CP warehouses as per call forwards.

Alongwith the situations of stock outs mentioned earlier, we have also noticed that there are situations prevailing in which certain CP's and OP's have over 6 months of consumption as their stocks. These CP's and their OP's are mainly Dharamsala, Valsad, Mahim, Ambikapur, Jagdalpur and Khanwel.

Recommendation 1.

CRS/BO should continue the process and progress with TRIFED (Clearing and Forwarding Agent), railway authorities, New York Shipping and other concerned authorities to ensure adequate stock levels at CP's and OP's. The idea of having stock points at strategic positions in the Zone may also be evaluated. Further, stock levels at different CP's/OP's should also be monitored in relation to the consumptions, so that these situations are avoided.

Finding 2.

- a) We have noticed during our visits that cards for MCH programs at Nagpur OP, Chhaoni were retained by the operating partner and also not initialled.
- b) Attendance registers for MCH program were not completed in Khanwel at OP Shelti.

Recommendation 2.

- a) The OP should not retain MCH cards.
- b) The attendance registers needs to be appropriately filled up, as these provide for a cross verification of issues.

Finding 3.

In respect of Nagpur CP visited by us we observed that weighing scale was showing lower weight of commodities to the extent of 3 to 4 kgs. We were informed by the CP that this variation is taken into account whenever the issues are made. We are informed that the discrepancy has been intimated to CRS Zonal office. Further, the supplier of the weighing machine has also been intimated by CP.

Recommendation 3.

The weighing scale should be repaired/replaced at the earliest in order to facilitate the accurate issues of commodities and determination of loss.

Finding 4.

- a) We observed that under MCH programme, a Nagpur OP Chhaoni had distributed commodities to more than 2 members of a family in violation of the agreement terms.
- b) The beneficiaries are overaged for N/C programme in Khanwel and a Nagpur OP, Missionaries of Charity which was not in accordance with the criteria laid down in CRS manuals.

Recommendation 4.

Eligibility criteria laid down in CRS guidelines should be followed for MCH/N/C programmes for the concerned OP's.

Catholic Relief Services, Bombay Zone.

Finding 5.

In respect of a Nagpur OP, Chitale, food has been distributed in raw form under N/C program contrary to the program guidelines.

Recommendation 5.

The distribution of food under N/C program should be made in cooked form as laid down in CRS manuals.

Finding 6.

Publicity

Regulation II regarding publicity regarding the origin of the commodities as a gift by the U.S.A. was not adequately made in OP Chitale, OP Gothangaon and OP Jaspurnagar visited by us.

Recommendation 6.

The publicity program should be designed in such a way, especially in remote areas, that the illiterate beneficiaries should also know about the actual donors.

ZONAL OFFICE

Surveyor

Finding 7.

CRS Title II manual requires that CRS Zonal Office should maintain a panel of atleast three surveyors. However, CRS/BO maintains a panel of two surveyors and could not get a reputed third surveyor to enrol on the panel. The second surveyor on the panel can not be used as he is already the surveyor for the ship. Independence is ensured by not using the ship surveyor. Hence, only one surveyor is being used by CRS/BO for conducting the survey of the commodities landed at the port.

Recommendation 7.

CRS Zonal Office should make further efforts for maintaining a panel of atleast three surveyors as laid down in Title II manual.

Clearing and Forwarding Agent's Stock Statements

Finding 8.

As per CRS manual, the clearing and forwarding agents are required to submit the stock statements. But no such stock statements have been prepared and submitted to the Zonal Office leading to a position where CRS has no independent status report of the stock movements and stock holding at the Clearing and Forwarding Agent's warehouse. CRS/BO is following up with the Clearing and Forwarding Agent viz. TRIFED to prepare and submit stock statements to the Zonal office in terms of the agreement. Hence no recommendation is offered.

FINANCIAL REPORTING AND TRANSACTIONS

Finding 1.

On our review of the transactions underlying the Financial Accountability Statement (FAS) for Title II covered under our scope work, we find Rs.1,25,000 (US \$4,167) of transaction not allowable under Title II programme.

Recommendation 1.

CRS needs to review and approve the transaction after obtaining USAID approval.

Finding 2.

The Title II generated funds coupled with slow disbursement of Road Transport Claims (RTC) at many CP locations are insufficient to meet the programme costs and the CP resorts to borrowing by way of interest free loans from the nodal institution. However such loans are not routed through the CPC-1 or by way of foot note by the Dharmashala CP.

Recommendation 2.

We recommend that loans taken from institutions should be routed through CPC-1 and as foot notes to CPC-1 to reflect the financial position of the concerned CP in relation to Title II funds.

Finding 3.

a) We have noticed in Ahmedhabad at OP Sanand that a loan of Rs.36,143 (US \$ 1,205) was met out of the Title II funds towards a private funded project connected to Title II Program without obtaining a prior approval from CRS Zonal Office. Post facto approval for the same was given by CRS Zonal Office in the month of September, 1993. The OP has reimbursed the amount in two instalments in the months of August, 1993 and November, 1993.

b) OP Patora and CP Ambikapur does not have bank account in the name of CRS Title II but in his personal name. As necessary change in the bank account name has been made during the course of audit, no recommendation is offered.

c) OP Bargawan had only Rs. 500 (US\$ 17) as the cash available for verification, while the books showed Rs.23,689 (US\$ 790) as its cash in hand. The difference of Rs.23,189 (US\$ 773) represents cash in hand of another MCH OP which was subsequently merged in to one Title II account on merger of the two Bargawan OP's. As necessary action has been taken, no recommendation is offered.

Recommendation 3.

a) The concerned OP should be discouraged from obtaining post facto approvals for utilisation of Title II funds, especially for transactions exceeding US\$ 500.

Finding 4.

Adjustments related to OPC-1 are made by overwriting the original OPC and these adjustments are not authenticated by the OP's signature at OP Sanand.

Recommendation 4.

Good practice requires that adjustments in stock and cash statements should be made separately with an explanatory note and should be properly authenticated by CP's and OP's signatures and, accordingly, these requirements need to be incorporated in CP/OP manuals.

Finding 5.

At most CP's, major payments out of Title II funds have been made which are exceeding the limit allowable by CRS manuals for making payments in cash. We have noticed payments exceeding Rs. 10,000 although there are bank accounts operated at these places for CRS Title II funds.

Recommendation 5.

In respect of cash payments made in excess of the limit allowable by CRS manuals, we recommend that CRS manuals should be amended to take care of certain cash payments which are unavoidable due to circumstances prevailing at CP's/OP's locations viz. transportation, etc. Other cash payments in excess of allowable limit should be strictly monitored and discouraged. It is further recommended that the CRS manual should be amended to raise the limit for cash payments to Rs. 10,000.

Finding 6.

In respect of Nagpur CP visited by us, payment vouchers for the months of April, 1993 to August, 1993 aggregating to Rs. 86,830 (US\$ 2,894) were found in damaged condition (torn and eaten by white ants) and, accordingly, we were unable to vouch the same.

Recommendation 6.

We recommend that the concerned CP should be instructed to reconstruct the relevant vouchers and should be more careful in preserving the financial document.

Finding 7.

In respect of OP Sanand of Ahmedabad CP, the loans taken from Institutions have not been kept a track of by way of footnote to OPC-1 and due to this it was noticed that during a month, as per OPC-1, repayment of loan to an Institution exceeded the loan taken, resulting in an advance. The same was settled subsequently during the same month.

Catholic Relief Services, Bombay Zone.

Recommendation 7.

We suggest that loans taken from the Institutions should be properly kept a track of by way of footnote to OPC-I.

INTERNAL CONTROLS

WAREHOUSING AND INVENTORY CONTROLS

Finding 1.

a) The commodities are required to be stored in terms of the CRS/AID manual or prudent warehousing practices in Stacks with proper damage, ventilation and the photograph shown below demonstrates the practice followed in Balrampur OP is a good practice.



In general, the commodity warehousing controls were adequate in most places visited by us. However, in Jagdalpur CP, there was improper stacking for which a physical verification of commodities were not done by us and there was insufficient storing area for commodities in Khanwel, Jagdalpur CP, and sacks were kept in a classroom/other rooms in the absence of a godown. Mahim CP does not have a godown.

Catholic Relief Services, Bombay Zone.

b) That there are no working papers etc. to demonstrate an actual physical verification of commodities carried out by CP's/OP's. None of the godowns except Khanwel visited by us maintained stack cards to facilitate issues on First In First Out basis. Issue on FIFO basis is a requirement of the AID and there are no controls to facilitate such conformity. These are being included in the new Title II manual and no recommendation is offered.

Recommendation I.

a) CRS should examine the prospect of funding especially the Jagdalpur, Khanwel and Mahim CP's which are not having adequate warehousing facilities, to build proper storage space with adequate dunnage.

FINANCIAL CONTROLS

The following matters are considered weaknesses in internal control system and has been discussed earlier in our report.

Finding 1.

In CP Kunkuri, receipts of 4 months were being accounted for a single transaction on a later date. These transactions are required to be recorded on the day of the transactions.

Recommendation 1.

Receipts and expenses by concerned CP should be accounted for when they occur and routed through the CPC-1/OPC-1.

Finding 2.

We have noticed cases that completed statements were adjusted and altered without any evidence of authorisation in OP Sanand and CP Kunkuri. These cause difficulty in monitoring the changes and weakens the control systems.

Recommendation 2.

Adjustments to financial or stock statements should be made by separately showing an adjustment with an explanatory note, rather than changing a statement by overwriting. All adjustments need authorisation by signatures of the CP/OP. This may be incorporated in CP/OP manuals.

Finding 3.

Loans received from the institutions were not reflected in the financial statements by way of a footnote as in Dharamsala CP and Sanand OP. This leads to inaccurate depiction of the financial statements, as the amounts owed are not reflected.

Recommendation 3.

We recommend that loans taken from institutions should be routed through CPC-1 and as foot notes to CPC-1 to reflect the financial position of the concerned CP in relation to Title II funds.

STRENGTHENING GRANT (SG)

Finding 1.

While scrutinising CP wise Strengthening Grant register at Zonal office, we have noticed that in the case of Valsad and Ahmedabad CPs, no provisional encashment certificates/bank pay-in-slips have been received for certain periods as encashment certificates have been received within 10 days. Whereas in case of Nagpur CP, encashment certificate for a certain period was received after a delay of 9 months.

Recommendation 1.

We suggest that CRS SG manual should be suitably amended to omit the requirement of obtaining the provisional encashment certificates/bank pay-in-slips where encashment certificates are submitted by CP's within 15 days of receipt of dollar cheques by them. Further, Nagpur CP should be instructed to submit encashment certificate within the stipulated time.

Finding 2.

During our verification of cash flows statements for Strengthening Grant, we have observed in the case of Andheri and Nagpur CP's that actual disbursements during a quarter are almost double the projected needs, whereas in the case of Nagpur, Khanwel and Jagdalpur although projected needs were estimated for certain quarters, no disbursements have been made during these quarters. Jagdalpur CP was forced to avail a loan from the institution to finance the strengthening grant activities.

Recommendation 2.

We suggest that more detailed study of projected needs should be carried out or disbursements should be made in the relevant period in order to make sufficient funds available at the disposal of CP's.

Finding 3.

During our visit of Nagpur CP, it was observed that although funds under Strengthening Grant have been provided to the CP for employing two persons, only one part-time employee has been appointed for CRS programme.

Recommendation 3.

The concerned CP should employ adequate staff as per Strengthening Grant agreement.

MANAGEMENT COMMENTS



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Ref. No. 11167/2

September 16, 1994

M. J. Laxdeshkar & Laxkar
 Dubash House
 15, J.N. Heredia Marg
 Balived Estate
 Bombay-400 039

Dear Sirs,

Ref: Your Draft Report which was discussed
 today (16.09.94)

We agree to your draft except for the following :

Appendix	Page #	Subject
Appn 3	12 para 3 (a&b)	The questioned and inadequate supporting comment should be linked in the report with Appendix 4
Appn 7	29	Recommendation - We recommend the manual be amended to include vocational training as a regular program.
Appn 7	31	Recommendation 1 - CRS/BO should continue.....
Appn 7	31	Recommendation 2 - Delete "as this would.....controls"
Appn 7	32	Finding 4 (b) - "Nagpur OP (Missionaries of Charity) which....."
Appn 8	34	Finding 1 - Delete "and Rs.86,830 (US\$ 2,894)" and link it with Appendix 4 with the comment
Appn 8	35	Finding 3 (c) - Delete "deposited in MCH Title II account in the bank which has been" and add "cash in hand of another MCH OF which was"

Contd...../-

The Overseas Relief and Development Agency of the United States Catholic Conference

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|--------|----|--|
| Appn 9 | 38 | Recommendation 1 (a) - Read as " CRS should examine the prospect of funding especially Jagdalpur....." |
| Appn 9 | 39 | Recommendation 2 - Add "This may be incorporated in the manuals" |

Thanking you.

Sincerely.



S.E. MODAK
SR. MANAGER/REVIEW