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THE SHARE PARTICIPATION FOUNDATION
AUDIT OF USAID FUNDED PROGRAM
FOR THE PERIOD ENDED APRIL 17, 1999

THE SHARE PARTICIPATION FOUNDATION

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A - SUMMARY

The Share Participation Foundation
1089 Budapest
Vajda Péter u 43/b II em 25

October 20, 1999

Attn Lukacs János

Dear Mr Lukacs,

Audit of The Share Participation Foundation

We have set out in this letter a summary of the critical issues arising from our audit of the Foundation's Fund Accountability Statement, internal control structure and compliance with laws and regulations for the period ended April 17, 1999

Background

The Foundation was founded in 1989 to promote employee ownership as one aspect of property reform in the creation of a market economy in Hungary Working with employees, employers, and their organizations, it disseminates information, publishes documents, conducts research, and provides direct expert advice to enable large numbers of employees to become share owners in their companies In April 1996, the Foundation was awarded a grant in the sum of \$988,886 from the U S Agency for International Development ("USAID") to provide support for a program in Employee Stock Ownership Plans The term of the grant is April 17, 1996 through April 17, 1999

Grant

The grant subject to our audit is the following

<u>Project Number</u>	<u>Agreement Number</u>	<u>Purpose</u>
180-0014	181-0014-A-00-6307	To strengthen three strategically-selected ESOP pilot companies by providing technical assistance, including financial review, Western-style management techniques and training

Objectives of our Audit

The objective of our audit is to express an independent opinion on the Fund Accountability Statement for the grant listed above, review the internal control structure and verify whether or not the program has complied with the terms of the grant agreement and relevant laws and regulations. The detailed approach was laid down in the statement of work and we confirm that our work was performed following those guidelines and in accordance with generally accepted auditing standards in the United States and with the U.S. Comptroller General's Government Auditing Standards.

Work performed

In summary, the work we performed included the following:

Fund Accountability Statement

- 1 We vouched the revenue and significant expenses to its supporting documentation
- 2 We examined the expenses to determine if they were allowable, allocable and reasonable
- 3 We ensured the expenses tested were properly supported
- 4 We tested the salary charges and determined their reasonableness based on the employee's positions
- 5 We tested the reasonableness of the allocation of the indirect costs

Compliance testing

- 1 We reviewed the grant agreement to obtain an understanding as to the nature of the grant
- 2 We tested the Foundation's compliance with the grant terms

Review of the internal control structure

- 1 We reviewed the internal control structure of the Foundation and obtained an understanding of its design

Summary Conclusions

We have drawn the following conclusions:

Fund Accountability Statement

All of the costs tested appear to be allowable, allocable and reasonable.

Compliance testing

The Foundation appears to be in compliance with the provisions of the grant.

Review of the internal control structure

No weaknesses have been identified in the Foundation's internal control structure

If you should have any queries regarding the matters raised in this letter, or in the body of our report, please do not hesitate to contact us

Kind regards,

PricewaterhouseCoopers Kft

PricewaterhouseCoopers Kft

B – FUND ACCOUNTABILITY STATEMENT

Independent Auditor's Report

We have audited the fund accountability statement of The Share Participation Foundation (the "Foundation") for the period ended April 17, 1999. The fund accountability statement is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

We conducted our audit of the fund accountability statement in accordance with U.S. 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 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the fund accountability statement referred to above presents fairly, in all material respects, project revenues, costs incurred and reimbursed, and commodities and technical assistance directly procured by AID for the period then ended in accordance with the terms of the agreement and in conformity with the basis of accounting described in Note 2.

This report is intended for the information of the Foundation, and the U.S. Agency for International Development (AID). However, upon acceptance by the AID Office of the Inspector General, this report is a matter of public record and its distribution is not limited.

Budapest, October 20, 1999

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Findings and recommendation

The Fund Accountability Statement was prepared using records maintained by The Share Participation Foundation

Sample Selection Criteria

100% of the revenue was vouched to the bank statements

We vouched significant expenses, excluding salaries, and obtained coverage of 72% which we deemed to be adequate. We examined the invoices to ensure that the costs were properly classified.

We obtained the detail of the employees' salary expense, by month, and traced ten monthly salaries to their payment documentation. We then reviewed the monthly salary rates to determine their reasonableness based on the employees' position.

We obtained a detail of the in-kind counter-part contributions and ensured that 100% of the amounts recorded met all of the criteria required by the grant agreement to be considered an in-kind contribution and that the contributions were valued properly.

We obtained a detail of the cash counter-part contributions and we traced 80% of the amounts recorded to bank statements or petty-cash statements.

We agreed the total costs incurred per the Fund Accountability Statement to the quarterly burn-rate reports with immaterial differences.

Audit Results

Our detailed testing of transactions revealed the following

- all receipts are properly supported
- all of the expenses submitted for reimbursement were allowable, allocable and reasonable and were properly supported
- all of the expenses were properly classified
- the monthly salary charges agreed to their payment documentation, without exception
In addition, the rates appeared reasonable based on the employees' positions
- 80% of cash counter-part contributions were tested, and no exception was noted
- All the in-kind contributions examined appear to have properly met all the criteria required by the grant agreement

**SHARE-PARTICIPATION FOUNDATION
FUND ACCOUNTABILITY STATEMENT
January 1, 1998 to April 17, 1999**

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Reference (Findings and Notes)</u>
			<u>Ineligible</u>	<u>Unsupported</u>	
<u>REVENUE</u>					
Grant	\$ 449 043	\$ 449 043			
Initial financial fund	\$ 55 507	\$ 55 507			
Interest earned		\$ 2 956			
Interest paid back to USAID		\$ 1 986			
<u>COST INCURRED</u>					
Administrative Grant	\$ 39 463	\$ 30 072			
Salaries Grant	\$ 86 961	\$ 130 929			
Transportation Grant	\$ 1 250	\$ 1 012			
Equipment Supplies Grant	\$ 6 250	\$ 5 731			
Maintenance Grant	\$ 2 500	\$ 5 230			
Training org dev dissem Grant	\$ 167 788	\$ 256 642			
Equipment Grant	\$ 0	\$ 0			
Other Direct Grant	\$ 15 875	\$ 745			
Audit	\$ 6 250	\$ 9 266			
Indirect Grant	\$ 47 987	\$ 65 240			
Currency rate		\$ 654			
Total Costs	Incurred	<u>\$ 374 324</u>	<u>\$ 505 520</u>		
OUTSTANDING FUND BALANCE			<u>\$ 0</u>		
COMMODITIES&TECHN ASSISTANCE DIRECTLY PROCURED BY A I D			\$ 0		
TOTAL QUESTIONED COSTS			<u>\$ 0</u>	<u>\$ 0</u>	

**Share-Participation Foundation
Schedule of Counterpart Contributions
January 1, 1998 to April 17, 1999**

	<u>Budget</u>	<u>Actual</u>	<u>Questioned</u>	<u>Reference (Findings and Notes)</u>
CASH Grant		\$ 157,079		
IN-KIND Grant		\$ 58,700		
TOTAL	<u>\$ 133,496</u>	<u>\$ 215,779</u>		

Notes to the Schedule of Counterpart Contributions

1 Budget

The budget has not been divided between cash and in-kind contributions

SHARE PARTICIPATION FOUNDATION

NOTES TO THE ACCOUNTABILITY STATEMENT

1 Currency translation

Grants are recorded at the actual dollars received from USAID while expenditures in Hungarian Forint (HUF) are translated using a weighted-average monthly exchange rates

2 Basis of Accounting

The Fund Accountability Statement is prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than United States generally accepted accounting principles

3 Revenues

Revenues represent amounts received under the grant from USAID in the period from January 1, 1998 through April 17, 1999

4 Expenditures

Expenditures represent actual amounts disbursed from USAID funds in the period from January 1, 1998 through April 17, 1999

5 Budget

The 1998 budget, approved by USAID, covers the period from April 1, 1998 through April 17, 1999. The budget for the period from January 1, 1998 to April, 1999, which is recorded in the Fund Accountability Statement was computed by taking the 1998 and one-quarter of 1997 budget

C – INTERNAL CONTROL

Independent Auditor's Report on Internal Controls

We have audited the fund accountability statement of The Share Participation Foundation (the "Foundation") as of and for the period ended April 17, 1999, and have issued our report thereon dated October 20, 1999. We also reviewed the separate schedule of counterpart contributions to determine whether they were provided and accounted for in accordance with the terms of the agreement.

We conducted our audit in accordance with U.S. 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 fund accountability statement is free of material misstatement.

In planning and performing our audit of the fund accountability statement of the Foundation, we considered the internal control structure related to the AID funded programs and projects in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure. We also considered the internal controls applicable to the counterpart contributions provided by the Foundation.

The management of the Foundation 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, transactions are executed in accordance with management's authorization and in accordance with the terms of the agreement, and transactions are recorded properly to permit the preparation of the fund accountability statement in conformity with the basis of accounting described in Note 2 to the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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

Control environment

- Financial management capabilities
- Personal policies and practices
- Familiarity with ASAIID rules

Accounting system

- Budgeting and funds management
- General record-keeping
- Reporting to USAID

Control procedures

- Authorization of transactions and activities
- Written procedures
- Bank reconciliations

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

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more 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 fund accountability statement and the schedule of counterpart contributions may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above, with the exception of those items noted in the "Findings"

This report is intended for the information of the Foundation, and the U S Agency for International Development (A I D) However, upon acceptance by the A I D Office of the Inspector General, this report is a matter of public record and its distribution is not limited

Budapest, October 20, 1999


PricewaterhouseCoopers Kft

Work Performed

We reviewed the internal control structure of The Share Participation Foundation and obtained an understanding of the design and relevant procedures and assessed control risk. Our review considered the significant internal control structure and procedures categorized as follows:

Control Environment

- financial management capabilities
- personnel policies and practices
- familiarity with USAID rule and guidelines

Accounting System

- budgeting and funds management
- general record-keeping
- reporting to USAID
- disbursement of USAID funds

Control Procedures

- authorization of transactions and activities
- written procedures
- bank reconciliations

Findings and Recommendations

Control Environment

The overall control environment was considered to be effective as the staff responsible for the financial management of the Foundation are qualified, capable of managing USAID funds, and reasonably familiar with USAID rules and regulations concerning its grants.

Accounting System

The Foundation does not maintain its own accounting system. Instead, an outside accountant is used to perform the general record keeping and to prepare the Foundation's financial statements on an annual basis.

Funds received from USAID are received into a designated United States Dollar („USD”) bank account. Also separated bank accounts and separated petty-cash are maintained converting the funds into Hungarian Forint („HUF”)

The Foundation submits quarterly progress reports, burn-rate reports and Federal Cash Advance Status reports to USAID within fifteen days after the end of each quarter. The burn-rate reports, which illustrate the amount of funds requested, received and spent for each of the months in the quarter, is prepared by the Project Manager.

The Foundation still does not maintain its own accounting system however the accounting company ('Fifika-Plusz Kft') runs a coded work-number system for accounting costs and revenues hence the preparation of burn-rate reports is now based on the general ledger. The main principle of the work-number (cost center) system is that each item of income or expense of the economic activity of SPF is recorded in a budget chapter coded with a work-number, the total of which must be equal with the grand total of the general ledger. The expenses and revenues as per the burn-rate report have been reconciled with those of the general ledger.

Since the burn-rate reports are prepared on cash basis figures of the general ledger are modified with the changes in debtors and creditors in the relevant month.

Control Procedures

Our previous recommendations regarding weaknesses previously noted have been substantially addressed. A formal personal policies and procedures manual has been compiled, bank reconciliation are prepared on monthly basis, separate bank accounts and petty-cash are being maintained in order to administer USAID funds.

D - COMPLIANCE

Independent Auditor's Report on Compliance

We have audited the fund accountability statement of The Share Participation Foundation (the „Foundation” as of and for the period ended April 17, 1999, and have issued our report thereon dated October 20, 1999. We also reviewed the separate schedule of counterpart contributions to determine whether they were provided and accounted for in accordance with the terms of the agreement.

We conducted our audit in accordance with U S 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 fund accountability statement is free of material misstatement.

Compliance with agreement terms and laws and regulations applicable to the Foundation is the responsibility of the Foundation's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of the Foundation's compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. We also performed tests of the Foundation's compliance with certain provisions of agreement terms and laws and regulations applicable to the provision of counterpart contributions.

The results of our tests indicate that, with respect to the items tested, the Foundation complied, in all material respects, with the provisions referred to in the preceding paragraph with the exception of those items noted in the „Findings. With respect of items not tested, nothing came to our attention that caused us to believe that the Foundation had not complied, in all material respects, with those provisions.

This report is intended for the information of the Foundation, and the U S Agency for International Development (A I D). However, upon acceptance by the A I D Office of the Inspector General, this report is a matter of public record and its distribution is not limited.

Budapest, October 20, 1999



PricewaterhouseCoopers Kft

Work Performed

Our audit of The Share Participation Foundation's grant agreement included obtaining assurances that the Foundation complied with grant provisions. Procedures performed to test such compliance included the following:

- A review of the grant agreement provisions and related regulations to identify those provisions and regulations which could have a material effect on the Fund Accountability Statement
- Audit procedures including detailed testing to confirm the Foundation's compliance with these provisions and regulations

Finding and Recommendations

Based on last year's recommendation the Foundation obtained a ruling from USAID regarding to the remittable interest earned on advances. The Foundation remitted to AID the interest earned on advances after receiving of this ruling.

According to grant agreement, for each year (or funding period), the Foundation is required to expend, from non-Federal funds, 30% of the total Federal contribution. In the audited period the Foundation exceeded its obligation expending 43% of the total Federal contribution from non-Federal funds.

According to grant agreement, for each year (or funding period), the indirect cost rates shall not exceed 14.4% of total direct costs. The Foundation exceeded this limit in the audited period by 0.4%.