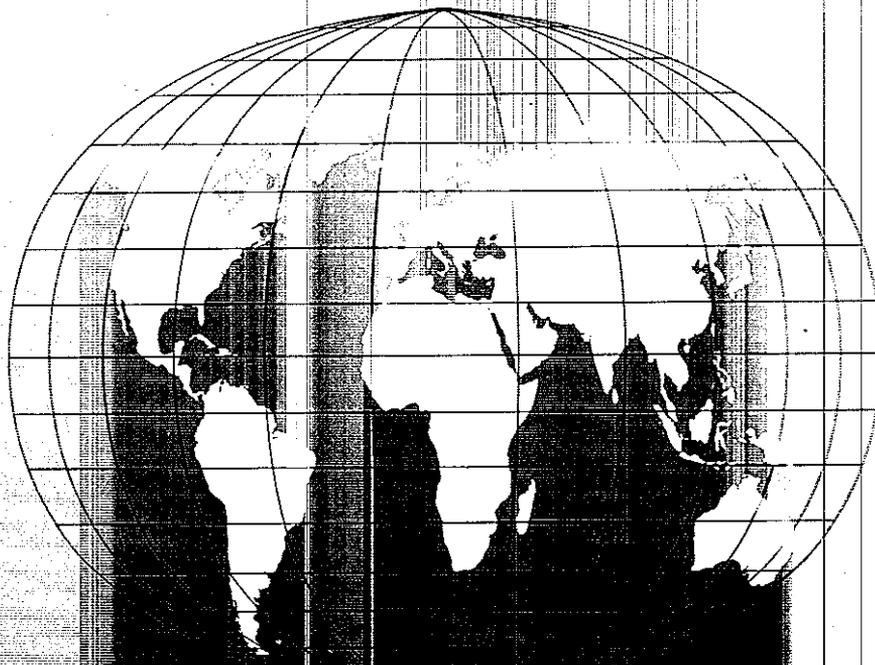


Report of Audit

Audit of USAID Resources Managed by Adventist Development and Relief Agency

Report No. 4-611-00-003-N
April 17, 2000



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**Audit of USAID Resources Managed by
Adventist Development and Relief Agency**

**Report No. 4-611-00-003-N
April 17, 2000**

REGIONAL INSPECTOR GENERAL/PRETORIA



Regional Inspector General
Pretoria

April 17, 2000

MEMORANDUM FOR MISSION DIRECTOR, USAID/ZAMBIA

FROM: Regional Inspector General/Pretoria, Joseph Farinella

SUBJECT: Agency-Contracted Audit of USAID Resources Managed by Adventist Development and Relief Agency, Project No. 611-0000-98-7004, for the Period April 27, 1998 to July 31, 1999, Report No. 4-611-00-003-N

Attached is a report of an Agency-contracted Audit of USAID's cooperative agreement with the Adventist Development and Relief Agency (ADRA). The audit was performed by Ernst & Young, Chartered Accountants, Lusaka, Zambia.

ADRA is a global organization based in Silver Spring, Maryland. ADRA/Zambia was established in 1983 to implement community-based sustainable development activities in health care, food security, agriculture, economic development, education and environmental development.

In April 1998, USAID/Zambia approved the Nyimba District Community Health Project No. 611-0000-98-7004, which provided \$100,000 to ADRA for coordinating and conducting community training programs in child health, malaria, HIV/AIDS, reproductive health, tuberculosis and sanitation.

The audit covered the period from April 27, 1998 to July 31, 1999. Expenditures reported during the above period by ADRA totaled \$73,712.

The audit scope and objectives included:

- performing a financial audit in accordance with generally accepted auditing standards and the standards of the U.S. Comptroller General's Government Auditing Standards, and expressing an opinion on ADRA's Fund Accountability Statement for the period April 27, 1998 to July 31, 1999;
- evaluating ADRA's internal controls and identify significant internal control deficiencies; and
- testing ADRA's compliance with applicable laws, regulations and agreements and report on any material instances of non-compliance.

The auditors' report on the Fund Accountability Statement concluded that grant revenues and expenditures were fairly stated for the period under audit.

The audit report did not identify any questioned costs, or significant internal control weaknesses, or material instances of non-compliance with applicable laws, regulations and agreements. Since the report did not contain any recommendations, no action is required on your part.

Attachments: a/s

**UNITED STATES AGENCY FOR INTERNATIONAL
DEVELOPMENT (USAID)**

**REPORT ON FINANCIAL AUDIT OF USAID
RESOURCES MANAGED BY ADVENTIST
DEVELOPMENT AND RELIEF AGENCY (ADRA)**

FOR THE PERIOD

27 APRIL 1998 TO 31 JULY 1999

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1. Background

On 27 April 1998, the US Agency for International Development (USAID), mission to Zambia approved the Nyimba District Community Health Project Number 611-0000-98-7004, which provided \$100,000 in grant funds to Adventist Development and Relief Agency (ADRA) for co-ordinating and conducting community training programmes in child health, malaria, HIV/AIDS, reproductive health, tuberculosis and sanitation.

Objectives

The purpose of the agreement was to provide financial support to ADRA for a program in human resource development assistance i.e. Nyimba District Community Health Project.

Methodology

USAID obligated the amount of \$100,000 for program expenditures during the indicated periodic set forth in the co-operative agreement. Notwithstanding the total estimated amount set forth, USAID shall not be liable for reimbursing the Recipient for any costs in excess of the obligated amount, except as specified in 22 CFR 226.25. Payment shall be made to the recipient via periodic advances in accordance with procedures for payment i.e. periodic advance standard provision for non US, non Governmental Grantees.

Management

Established in 1983, ADRA Zambia implements specific activities whose focus is on community based sustainable development in primary health care, food security, agriculture, economic development, education, community development and positive environment improvement. ADRA is a global agency with headquarters in Silver Spring, Maryland, USA.

Audit Report Coverage

The audit covers the period 27 April 1998 to 31 July 1999.

2. Overall objectives and scope of the financial audit

We were engaged to carry out a financial audit of ADRA for the period 27 April 1998 to 31 July 1999, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. In particular, the following objectives and scope were given:

- to examine the fund accountability statement and to express our opinion thereon;
- to evaluate and obtain sufficient understanding of the internal control structure of USAID Resources managed by ADRA, assess control risk and identify reportable conditions including material internal control weaknesses;
- to perform tests to determine whether the organisation complied in all material respects, with agreement terms, applicable laws and regulations and, to express positive assurance on those items tested and negative assurance on those items not tested, identifying all instances of non compliance and all indications of illegal acts.

3. Summary of Audit Results of the Fund Accountability Statement, internal control structure and compliance with agreement terms and applicable laws.

The following are the significant findings of our audit:

- our opinion on the Fund Accountability Statement is unqualified;
- independent auditors' report on the internal control structure has noted non-material reportable conditions;
- independent auditors' report on compliance with agreement terms and applicable laws has noted non material reportable conditions;
- a Fund Accountability Statement was prepared by management. We reviewed all income and expenditure on the statement;
- there were no questioned costs on this project.
- A number of prior audit findings and recommendations have been implemented.
- Management has substantially agreed with the audit findings and recommendations.
- there are no shared costs on this project.

4. Statement of Responsibility for Project Financial Statements.

The ADRA management is responsible for the preparation of project financial statements that give a true and fair view.

In the opinion of the management, the project financial statements are drawn up so as to give a true and fair view of the financial activities of the project for the period ended 31 July 1999.

Consequently, the financial statements set out on pages 6 to 7 were approved by the management on 16-3-00

Signed on its behalf by:



Country Director - ADRA



Project Co-ordinator- ADRA

5. *Independent Auditors Report to the USAID on USAID Resources managed by ADRA*

Respective responsibilities of management and auditors.

We have audited the Fund Accountability Statement set out on page 6 for the period 27 April 1998 to 31 July 1999. The Fund accountability statement is the responsibility of the project's management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

Basis of opinion

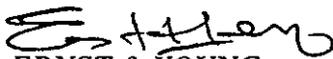
We conducted our audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes an evaluation of the appropriateness of the accounting policies, an examination, on a test basis of evidence supporting the amounts and disclosures included in the financial statements, an assessment of the reasonableness of significant estimates and a consideration of the appropriateness of the overall financial statement presentation. We consider that our audit procedures were appropriate in the circumstances to express our opinion below.

Opinion

In our opinion the Fund accountability statement, present fairly, in all material respects, project revenues received, costs incurred and reimbursed and commodities and technical assistance directly procured by USAID for the period then ended in accordance with the terms of the agreements and in conformity with generally accepted accounting principles.

Circulation

This report is intended for the information of ADRA and USAID. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.


ERNST & YOUNG
Chartered Accountants

17 March 2000
Lusaka

6. Fund accountability statement for the period
 27 April 1998 to 31 July 1999

	Budget	Actual	Questioned Costs		Note
	US\$	US\$	Ineligible US\$	Unsupported US\$	
REVENUE:					
US-AID grant	100,000.00	63,125.00			
Motor vehicle	-	20,932.00			
	-----	-----			
	--				
Total revenue	100,000.00	84,057.00			2
COSTS INCURRED:					
Recurrent cost					
Human resources & allowances	24,600.00	15,910.23			
Transportation	15,800.00	8,564.86			
Regional office expenses	4,780.00	3,393.42			
Non recurrent					
Insurance expenses	3,000.00	1,500.00			
Training expenses	2,000.00	6,455.64			
Pharmaceuticals	300.00	10.42			
Capital expenditure					
Computer	-	1,504.10			
Equipment	9,520.00	3,071.35			
Equipment ADRA	1,000.00	2,832.08			
Field accommodation	4,000.00	4,814.86			
Motor cycles	7,000.00	4,273.41			
Vehicles	28,000.00	20,932.00			
Bank charges	-	450.00			
	-----	-----			
	100,000.00	73,712.37			
Exchange loss	-	454.25			3
Outstanding fund balance	-	9,889.38			
	-----	-----			
	100,000.00	84,057.00	-	-	

**Notes to the financial statements
for the period ended 31 July 1999**

1. *Basis of preparation*

The fund accountability statement is prepared on a cash basis. Revenue and expenditure are recognised when cash is received and expenses paid for.

2. *Revenue*

Revenue represents the grant received from USAID in cash and assets bought on behalf of the project by USAID.

3. *Foreign currencies*

Foreign currency transactions are recorded at the exchange rate ruling on the transaction date. Exchange gains/losses are recognised in the fund accountability statement and are a result of the average exchange rates being used to translate the costs denominated in US Dollars to Zambian Kwacha and those denominated in Zambian Kwacha to US Dollar. They are reasonable by their size.

4. *Costs incurred*

Costs incurred represent monies spent on budget lines.

5. *Ineligible Costs*

There were no ineligible costs during the period under review.

6. *Unsupported Costs*

There were no unsupported and uncleared costs during the period under review.

7. *Currency*

The fund accountability statement is prepared in US Dollars.

8. *Independent Auditors Report to the USAID on Internal Controls*

Respective responsibilities of management and auditors

We have audited the fund accountability statement of ADRA for the period ended 31 July 1999 and have issued our report thereon.

The management of ADRA is responsible for establishing and monitoring an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute assurance that the assets are safeguarded against loss from unauthorised use or disposition; transactions are executed in accordance with management's authorisation and in accordance with the terms of the agreements; and transactions are recorded properly to permit the preparation of the fund accountability statement in conformity with the basis of accounting described in note 1 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.

Basis of Opinion

We conducted our audit in accordance with 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 ADRA for the period ended 31 July 1999, we obtained an understanding of the internal control structure, with respect to the internal control structure 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Opinion

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under the International Standards. 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 may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

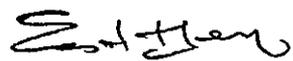
We noted, no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

All items that we tested, ADRA complied in all material respects with the provisions referred to in the preceding paragraph. We carried out a 100 per cent review.

However, we noted certain matters involving internal control structure and its operation that we have reported to the management of ADRA in this report.

Circulation

This report is intended for the information of ADRA and the USAID. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.


ERNST & YOUNG
Chartered Accountants

17 March 2000
Lusaka

9. *Independent Auditors Report to the USAID on Compliance*

Respective responsibilities of management and auditors

We have audited the fund accountability statement of ADRA for the period ended 31 July 1999 and have issued our report thereon.

The management of ADRA is responsible for compliance with applicable agreement terms and regulations. Our responsibility is to issue an independent opinion based on our audit on the compliance with such provisions and report our opinion to you.

Basis of opinion

We conducted our audit in accordance with the 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.

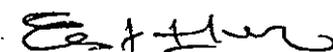
We performed tests of USAID Resources managed by ADRA's compliance with certain provisions, or agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly we do not express such an opinion.

Opinion

The result of our tests indicate that, with respect to items tested, ADRA complied in all material respects with the provisions referred to in the preceding paragraph. We carried out a 100% review. There were no items untested to warrant negative assurance.

We noted one instance of non-compliance that we have included in this report.

This report is intended for the information of ADRA and the USAID. However, upon release by USAID, this report is a matter of public record and distribution is not limited.


ERNST & YOUNG
Chartered Accountants

17 March 2000
Lusaka

10. Business recommendations

10.1 *Lack of investment of grant funds*

Observation

We observed that the project does not show any interest earned in their books. This could mean that the project bank account is not an interest earning account.

Risk

There is a possibility of opportunity loss where available funds are not appropriately invested.

Recommendation

The project should put grant funds into an interest bearing account wherever possible to earn some money.

Management comments

When commencing this project ADRA advised USAID its intention to use an already existing but non-effective ADRA Kwacha account for this project. The presented documentation was accepted and no indication was made to the utilisation of an Interest Bearing Account.

Your suggestions will be discussed with USAID. However it was not the intention of the project or USAID to have large amounts of money sitting unused in a bank account. Facilities are set up so money is requested and disbursed within each month for normal operations.

11. Internal control recommendations

11.1 *Payment for goods and services*

Observation

We observed that on a number of occasions, cheques are made out into senior management personal names and the management then makes payments to the suppliers for various goods and services.

Risks

- Issuing of cheques in personal names may substantially increase the scope for fraud and teeming and lading.
- The project runs the risk of loss if cheques are made out in individual names.

Recommendations

- We strongly recommend that all payments be made directly to suppliers of goods and services using crossed cheques.
- Where circumstances cannot allow payment by crossed cheques, we recommend that cheques be opened for encashment. In extreme cases, petty cash should be used for cash payments in which case the petty cash float could be flexed depending on requirements for cash payments.

Management comments

Every attempt will be made to use suppliers who will recognise an ADRA cheque and yet are competitive in their pricing. There are no banking facilities in Nyimba or Luangwa. The project vehicle passes Petauke occasionally to service the area of Mwape and Chinsimbwa. Special arrangements are being made with Citibank for them to recognise the Project Co-ordinator so cash checks can be drawn in his name.

11.2 Fund accountability statement budget variations

Observation

All expenditure codes were either under or overspent and some budget heads i.e. pharmaceuticals were almost not utilised at all.

Risks

- Seemingly unrealistic budgets would render the control aspect of budgeting irrelevant.
- Underutilisation of budgeted funds could lead to opportunity loss as funds unutilised may not be available at a later stage.

Recommendation

Budgets should be as realistic as possible, taking into account all known factors as well as clearly anticipated ones. Realistic budgets will ensure proper budgetary control is carried out.

Management comments

Care will be taken in all future budgets to ensure budgets are realistic and relate to the activities of the project.

11.3 Recruitment of an Accountant

Observation

We observed that over the period under review the project has had two accountants and currently does not have any. The Financial Controller is carrying out the accountant's role.

Risks

- Lack of an accountant could delay project work as accounting for funds and subsequent advance requests may not be carried out timeously.
- The control aspect of having the Financial Controller would be absent as the Financial Controller cannot review her own work.

Recommendation

We recommend that the project should urgently recruit an accountant to run its financial affairs.

Management comments

An accountant is now in place who we are confident can run the financial affairs of this project.

12. Recommendations on compliance with grant agreement and applicable regulations.

12.1 Advance requests and liquidation of advances

Observation

- We noted that for May 1998 and May 1999 to July 1999, the advance requests were not processed by USAID as there were balances outstanding.
- Up to July 1999, ADRA had not submitted form 1034 together with expenditure report to liquidate the May 1998 advance.

Risks

- Delays in liquidating advances is in contravention of agreement regulations
- Submitting advance requests without fully utilising previous months advance could delay subsequent process.

Recommendations

- The project should ensure that monthly advance requests should only be made after full utilisation of previous months advances.
- Submission of form 1034 together with the expenditure report to liquidate month on month advances should be done as per grant agreement as advance requests may not be processed if previous advances are not liquidated.

Management comments

With a qualified and experienced accountant in place requests and liquidation reports will be on time and precise.

13. Prior audit report recommendations and implementation status

Recommendations	Status
<p>Internal Control Recommendations</p> <p>1. Payments</p> <p>Some payment vouchers did not have supporting documents. For example, under Regional Office Expenses, there was a payment made for K4,052,125 that was unsupported.</p> <p>2. Unauthorised Salaries</p> <p>During the first two months of the project, salary payments were made to staff that are not provided for in the agreement. The money spent has not been recovered by the project.</p> <p>3. Fixed Asset Register</p> <p>There was no fixed asset register for the project items. The laptop computer purchased for the project is at the residence of the country director.</p> <p>4. No Qualified Accountant</p> <p>No qualified accountant, accounting functions performed by the Director. One person doing all accounting functions.</p> <p>5. Payments Drawn to Individuals</p> <p>Cheques drawn to individuals for large sums of money for purchases.</p>	<ul style="list-style-type: none"> • Payments are now being supported with adequate documentation. • The salaries in question were recovered by the project on 30 April 1999 i.e. K2,107,000. • A fixed asset register is now being maintained. The laptop is being used by the accountant. • A full time accountant has been employed from 1 November 1999 for the project. • No change in the system please see management report.

14 Shared Cost

The USAID's budget contribution of the cost on this project is US\$100,000. During the period 27 April 1998 to 31 July 1999, USAID contributed US \$63,125 in cash and a US \$20,932 vehicle towards the running of the project.

From the information available to us, USAID is the only financier on ADRA's Nyimba Community Health Project. ADRA runs other projects which are supported by other donors.