PD-ABC-250

AUDIT OF THE CHILD HEALTH INSTITUTE IN HAITI, INCLUDING MANAGEMENT OF COMPONENTS OF THE MOBILIZING MOTHERS FOR CHILD SURVIVAL, PRIVATE SECTOR FAMILY PLANNING AND VOLUNTARY AGENCY FOR CHILD SURVIVAL PROJECTS, SEPTEMBER 1, 1987 TO SEPTEMBER 30, 1989

Audit Report No. 1-521-91-07-N
December 13, 1990

AGENCY FOR INTERNATIONAL DEVELOPMENT

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December 13, 1990

MEMORANDUM

TO: D/USAID/Haiti, David Cohen

FROM: RIG/A/T, Reginald Howard

SUBJECT: Audit of the Child Health Institute in Haiti, Including Management of Components of the Mobilizing Mothers for Child Survival, Private Sector Family Planning and Voluntary Agency for Child Survival Projects, September 1, 1987 to September 30, 1989

This report presents the results of a non-Federal financial audit of the Child Health Institute (Institute) in Haiti for the period September 1, 1987 to September 30, 1989. The audit was part of a series of five audits performed to evaluate entities receiving funding under the Mobilizing Mothers for Child Survival Project - USAID/Haiti Project No. 521-0194 and the Private Sector Family Planning Project - USAID/Haiti Project No. 521-0189. The audit also included a review of funding received by the Institute as a subgrantee under the Voluntary Agencies for Child Survival Project - USAID/Haiti Project No. 521-0206. The accounting firm of KPMG Peat Marwick prepared the report which is dated October 29, 1990.

The Institute is a private voluntary organization established to evaluate, research and promote health activities, principally for mothers and infants throughout the country. Funding was provided to the Institute for a variety of functions related to services under the three projects included in the audit. The major responsibilities of the Institute included providing technical assistance and implementing an evaluation system for the Child Survival Project, delivering family planning services and improving counseling services under the Family Planning Project, and making improvements in private voluntary organizations as a means of increasing the availability of child survival health interventions. The audit coverage included $843,038 of A.I.D. funds advanced as well as other revenue totaling $170,811.

The purpose of the audit was to report on (1) the fairness of the fund accountability statement for the project components managed by the Institute, (2) the Institute's internal control structure, (3) the Institute's compliance with terms of the agreements and applicable laws and regulations, and (4) the Institute's financial and managerial capability to administer ongoing and future USAID/Haiti projects.

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Peat Marwick found that the Institute had not maintained adequate accounting records for certain project activities. The auditors were unable to apply alternate auditing procedures to satisfy themselves as to the adequacy of all project operations and the completeness of other income. Under these conditions, Peat Marwick disclaimed an opinion on the Institute's fund accountability statement and identified questionable costs totaling US$434,205 (US$432,839 unsupported).

With respect to the internal control structure of the Institute, Peat Marwick conducted only a preliminary review due to scope limitations. As a part of this review they identified material reportable conditions in the areas of (1) maintenance of accounting records, (2) reconciliations of book balances to related financial reports, (3) documentation of cross-uses of funds between projects, (4) development of a policy concerning local currency vs. U.S. dollar disbursements, (5) documentation and approval of certain foreign currency transactions, and (6) development of an effective budget control system.

In its reports on compliance with agreement terms and applicable laws and regulations, as well as the Institute's management and financial capabilities to administer ongoing and future USAID/Haiti projects, Peat Marwick was unable to express opinions due to the absence of adequate accounting records for certain project activities and its inability to apply satisfactory alternate auditing procedures. The auditors did, however, identify two material areas of noncompliance concerning budget variances and payroll tax withholding.

Because of the severity and nature of these problems, we are recommending that USAID/Haiti suspend A.I.D. funding to the Institute until such time as corrective actions, as detailed below, have been implemented.

The draft report was discussed with Mission officials and Institute representatives on September 6, 1990. The Mission concurred with all findings and recommendations in the report, but the Institute disagreed with the questioned costs and certain findings and recommendations relating to the adequacy of accounting records.

We are including the following recommendations in the Office of the Inspector General's audit recommendation follow-up system.

Recommendation No. 1

We recommend that USAID/Haiti negotiate a settlement with the Child Health Institute for US$434,205 in questioned costs (US$432,839 unsupported), as follows:

a. questioned costs of US$8,761 (US$7,395 unsupported) related to project No. 521-0189;

b. questioned costs of US$425,738 (all unsupported) related to project No. 521-0194; and

c. a negative fund balance of US$294 (all unsupported) related to project No. 521-0206.

Recommendation No. 2

We recommend that USAID/Haiti suspend funding to the Child Health Institute until USAID/Haiti and the Institute develop and implement a plan for improving the Institute's internal controls, compliance, and managerial and financial capability in the areas identified in the Peat Marwick audit report dated October 29, 1990.

Please advise this office within 30 days of actions planned or taken to clear the above recommendations.

AUDIT OF
CHILD HEALTH INSTITUTE
(INSTITUT HAITIEN DE L'ENFANCE - CHI)
including the components of
Mobilizing Mothers for Child Survival
(Project no. 521-0194)
Private Sector Family Planning
(Project no. 521-0189)
Voluntary Agency For Child Survival
Project no. 521-0206
Other Income

September 1, 1987 to September 30, 1989

(With independent auditor's reports thereon)

CHILD HEALTH INSTITUTE
(INSTITUT HAITIEN DE L'ENFANCE - CHI)

USAID/Haiti Project no. 521-0194
USAID/Haiti Project no. 521-0189
USAID/Haiti Project no. 521-0206
Other Income

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KPMG Peat Marwick

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October 29, 1990

Mr. Reginald Howard
Regional Inspector General For Audit
U.S. Agency for International Development
Tegucigalpa, Honduras, C.A.

Dear Mr. Howard:

This report presents the results of our financial audit of the Child Health Institute (Institut Haitien de L'Enfance - CHI) including the components of the Mobilizing Mothers for Child Survival, the Private Sector Family Planning, and the Voluntary Agencies for Child Survival, USAID/Haiti Projects no. 521-0189, 521-0194 and 521-0206, managed by CHI, for the period September 1, 1987 to September 30, 1989.

BACKGROUND

The Child Health Institute (CHI) is a private voluntary organization incorporated under Haitian Law since 1985, but recognized as a non-governmental agency by a Law Decree, published in "le Moniteur" on January 18, 1988. Child Health Institute's main objectives are to evaluate, research and promote health activities principally for mothers and infants throughout the country. To achieve its objectives, Child Health Institute organizes and performs surveys and studies and provides technical assistance to health institutions engaged in infant's health care.

USAID/Haiti signed a cooperative agreement for the Mobilizing Mothers for Child Survival Project, USAID/Haiti Project no. 521-0194, with the Haitian Arab Center (currently Centers for Development and Health - CDS) for an amount of $5,314,300, as amended in 1986. The purpose of the project was to enhance child survival through expansion of primary health care services, testing and implementation of targeted interventions. The project was to be coordinated and managed by the Centers for Development and Health (CDS) and conducted with the participation of various subgrantees. As part of this project, Child Health Institute received a subgrant from CDS for an amount not to exceed $1,041,900 to identify, coordinate and organize technical assistance of the entire Child Survival Project and also to design and implement the monitoring and evaluation system for the project.

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On August 20, 1986, USAID/Haiti signed a cooperative agreement for the Private Sector Family Planning Project (USAID/Haïti Project no. 521-0189) with the International Planned Parenthood Federation, Western Hemisphere Region Inc. (IPPF/WHR). The agreement included a subgrant to Child Health Institute to deliver family planning services and improve counseling services, for an amount of U.S. $289,726.

On September 26, 1988, the Agency for International Development (A.I.D) signed a cooperative agreement for the Voluntary Agencies for Child Survival (VACS) USAID project no. 521-0206 with the Child Health Institute for an amount of $656,868. The purpose of the project is to develop institutional capabilities of Private Voluntary Organizations (PVOS) and to improve PVO service delivery programs thereby increasing availability of Child Survival health interventions. Under this cooperative agreement, the University Research Corporation (URC) is the contractor to provide advices and technical assistance in the administration.

Child Health Institute received other funds from the International Planned Parenthood (IPPF/WHR) for the male attitude survey for the family planning project, from Mc Gill University for the Sida project and from the National Research Council Care, Future Groups, and Pev-Pronocadian for various projects.

AUDIT OBJECTIVES AND SCOPE

The objective was to conduct a financial and compliance audit of Child Health Institute taken as a whole, including the funds received from CDS as a sub-grantee under the Mobilizing Mothers for Child Survival, USAID/Haiti Project no. 521-0194, from IPPF/WHR for the Private Sector Family Planning, USAID/Haiti Project no. 521-0189, from the Voluntary Agencies for Child Survival (VACS) project no. 521-0206, during the period September 1, 1987 to September 30, 1989, and all other funds received by Child Health Institute.

The work was performed in accordance with Generally Accepted Auditing Standards and the Comptroller General's "Government Auditing Standards" (1988 Revision) and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances to determine whether:

1) The fund accountability statement presents fairly the receipts and expenditures from September 1, 1987 to September 30, 1989, according to the terms of the agreements, identifying unsupported costs or those not considered appropriately allocable or allowable under the agreements.

2) Child Health Institute's internal control structure is sufficient to capture data under the agreements and is adequate for projects' purposes.

3) Child Health Institute complied with the terms of the agreements and applicable laws and regulations.

4) Child Health Institute has sufficient management capability to administer ongoing and future USAID/Haiti projects.

5) Child Health Institute is financially capable of performing ongoing and future USAID/Haiti projects.

The major audit procedures conducted during our work in order to meet the audit objectives consisted of:

Receipts

Confirming directly with CDS, IPPF/WHR and USAID/Haiti the funding provided to Child Health Institute under the projects nos. 521-0194, 521-0189 and 521-0206 for the period under audit.

Reconciling the projects' funds with the confirmations and reviewing the bank reconciliations as of September 30, 1989.

Salaries

Analyzing the employees' salaries individually on a monthly basis to verify the fluctuations to the appropriate supporting documents.

Examining employees' files on a selected basis to determine if they were complete in accordance with projects' requirements.

Determining that salaries deductions are in accordance with applicable local regulations.

Procurement

Examining procurement documentation for the acquisition of equipment, material and services to ascertain that the control procedures and A.I.D standard provisions were properly applied.

RESULTS OF AUDIT

Fund Accountability Statement

The Child Health Institute maintained adequate accounting records and sufficient evidential documents for the revenues and expenses related to USAID/Haiti projects no. 521-0189 and 521-0206 funding, but not for the transactions related to USAID/Haiti project no. 521-0194. We were unable to apply other auditing procedures to satisfy ourselves as to the adequacy of the operations of USAID/Haiti project no. 521-0194 and as to the completeness of the Other Income.

Consequently, all expenditures related to Project no. 521-0194 amounting to $425,738 for the period September 1, 1987 to September 30, 1989 are considered as questionable costs. In addition, our audit disclosed questionable costs related to projects no. 521-0189 and 521-0206 amounting to US $9,055. Total costs incurred by Child Health Institute that were considered questionable amounted therefore to $434,205.

Because of the above scope limitations, we are unable to express an opinion on the fund accountability statement of Child Health Institute for the period September 1, 1987 to September 30, 1989.

Internal Control Structure

We studied and evaluated Child Health Institute's internal control structure relative to the components of USAID/Haiti projects no. 521-0194, no. 521-0189 and no. 521-0206 for which it is responsible, in order to assess the control risks and to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement of Child Health Institute and not to provide assurance on Child Health Institute's internal control structure taken as a whole. Due to the inadequacy of the accounting records maintained for the USAID/Haiti Project no. 521-0194 and for non-USAID funds, we were unable to obtain a sufficient understanding of the design of relevant policies and procedures relative to these funds and whether they have been placed in operations, nor were we able to assess control risk relative to Other Income. As a result, our study and evaluation did not extend beyond a preliminary review stage.

We noted the following findings, that we consider reportable conditions under Generally Accepted Auditing Standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision):

1. Child Health Institute accounting records were not maintained properly, particularly for transactions related to project no. 521-0194

2. Child Health Institute did not reconcile its book balances to the financial reports it submitted to CDS

3. Cross-uses of funds were inadequately recorded

4. There was no policy on the nature of disbursements that were to be paid in U.S. dollars rather than in local currency

5. Two currency exchange transactions totaling $ 15,200 were not properly documented and approved

6. Child Health Institute did not have an effective budget control system

7. Two invoices were missing from Child Health Institute files

8. Child Health Institute did not have a defined method of allocation for common costs between projects

9. Child Health Institute did not always follow established procedures for voucher approval

10. Child Health Institute did not obtain bid quotations for all its procurements

11. Child Health Institute lacked a defined method of allocating salary costs between projects

12. Two checks have been outstanding for more than two years

13. A contract for technical assistance could not be located at Child Health Institute files

14. Two employees contracts were not signed.

Compliance with the Terms of Agreements and Applicable Laws and Regulations

Due to the inadequacy of the Child Health Institute's accounting records maintained for the USAID/Haiti and Other Income, we were unable to evaluate the institute's compliance with the terms of the agreements and applicable laws and regulations.

As a result, we are not in a position to provide any assurance on tested, as well as untested items on compliance with the terms of the agreements and applicable laws and regulations. However, the results of our test of compliance disclosed the following instances of non compliance:

- Two budget variances exceeded the 15% limit
- Payroll taxes were not withheld.

Management Capability

Because of scope limitations, we are not in a position to express an opinion on CHI's capability to manage the USAID/Haiti fund projects nos. 521-0194, 521-0189 and 521-0206, activities for which it is responsible and future projects. The following deficiencies were noted:

1. Accounting records were not maintained properly

2. Child Health Institute lacked proper financial planning procedures

We defined sufficient management capability as meeting the requirements/guidelines included in the statement of work. The following areas were considered relevant to the criteria expressed in the statement of work:

- accuracy and timeliness of submission of reports and other project documentation

- performance of financial management and accuracy of financial projections in relation to project needs

- documentation and application of procedures that meet the rerements of the donors.

Financial Capability

Because of scope limitations, we are not in a position to express an opinion on CHI's financial capability to execute the USAID/Haiti fund projects nos. 521-0194, 521-0189 and 521-0206, activities for which it is responsible and future projects. The following deficiencies were noted:

1. Child Health Institute did not have an integrated financial management information and accounting system

2. Accounting records were not maintained properly.

We defined sufficient financial capability as meeting the requirements/guidelines included in the statement of work. The following areas were considered relevant to the criteria expressed in the statement of work:

- adequacy of accounting records
- adequacy of financial management information and accounting systems

MANAGEMENT COMMENTS

The draft report was discussed at the exit conference held on September 18, 1990, which was attended by representatives of RIG/AT, USAID/Haiti and CHI. In their formal reply to our report, included in annex I, management expressed their general agreement with the report recommendations and provided information on measures taken for the implementation of these recommendations. Additional details were provided and, where appropriate, changes have been incorporated in this report.

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CHILD HEALTH INSTITUTE
(INSTITUT HAITIEN DE L'ENFANCE - CHI)

USAID/Haiti Project no. 521-0194
USAID/Haiti Project no. 521-0189
USAID/Haiti Project no. 521-0206
Other Income

Fund Accountability Statement

Independent Auditor's Report

We were engaged to audit the accompanying fund accountability statement of Child Health Institute (Institut Haitien de l'Enfance - CHI) including the components of the Mobilizing Mother for Child Survival, the Private Sector Family Planning , Voluntary Agencies for Child Survival Projects managed by Child Health Institute and other income for the period September 1, 1987 to September 30, 1989. The fund accountability statement is the responsibility of Child Health Institute's management.

We attempted to conduct our audit in accordance with Generally Accepted Auditing Standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision). 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.

Child Health Institute did not maintain adequate accounting records and sufficient evidential documents for the revenues and expenses of USAID/Haiti project no. 521-0194 and other sources of funds. We were unable to apply other auditing procedures to satisfy ourselves as to the propriety of such other funding and as to the completeness of the revenues and expenses from other sources.

Since we were unable to reasonably determine the amount of the USAID/Haiti project no. 521-0194 and Other Income, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the fund accountability statement.

As described in note 1(b), the fund accountability statement is prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

As described in note 5, the accompanying fund accountability statement includes expenditures of $ 434,205 considered questionable costs. These costs are discussed in the "findings and recommendations" section of this report. USAID/Haiti will make a final determination as to whether these costs are allowable under the terms of the agreements.

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This report is intended solely for the use of the US Agency for International Development and Child Health Institute. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

KPMG Peat Marwick

June 29, 1990

CHILD HEALTH INSTITUTE
(INSTITUT HAITIEN DE L'ENFANCE - CHI)
USAID/Haiti Project no. 521-0194
USAID/Haiti Project no. 521-0189
USAID/Haiti Project no. 521-0206
Other Income

Fund Accountability Statement

For the period September 1, 1987 to September 30, 1989
(Expressed in U.S. dollars - Note 1(d))

Categories	Project no. 521-0194	Project no. 521-0189	Project no. 521-0206	Other Income	Total
Funding provided (note 1)	$ 389,372	$ 289,726	$ 163,940	$ 170,811	$ 1,013,849
Expenditures:					
Salaries and benefits	178,965	125,360	66,273	85,746	456,344
Transport and travel	19,152	7,468	10,935	17,075	54,630
Office expenses	19,167	29,982	14,400	13,738	77,287
Research development	2,741	-	-	-	2,741
Evaluation	24,573	-	-	-	24,573
Information / Dissemination	1,623	-	-	-	1,623
International travel/ U.S. training	2,808	25,425	-	-	28,233
Building renovation	6,310	-	-	-	6,310
Technical assistance	128,271	76,693	300	2,213	207,477
Operation research	42,128	52,872	-	-	95,000
Office equipment	-	8,008	-	-	8,008
Information, education, communication	-	5,765	-	323	6,088
Financial management and accounting	-	-	13,423	-	13,423
PVO to need assessment	-	-	6,461	-	6,461
Organizational development	-	-	12,000	-	12,000
In country training	-	-	1,457	-	1,457
Documentation	-	-	5,090	-	5,090
Qualitative and quantitative survey	-	-	-	3,417	3,417
Printed materials	-	-	-	5,620	5,620
Audit	-	4,000	-	-	4,000
Total expenditures	$ 425,738	$ 335,573	$ 130,339	$ 128,132	$ 1,019,782
Excess of funding provided (expenditures) over expenditures (funding provided)	(36,366)	(45,847)	33,601	42,679	(5,933)
Fund balance at beginning of period	17,632	58,097	-	-	75,729
Fund balance at end of period (note 4)	$ (18,734)	$ 12,250	$ 33,601	$ 42,679	$ 69,796

See accompanying notes to the fund accountability statement.

1) Total questionable costs amount to $ 434,205. See note 5 to the fund accountability statement for specific questionable costs.

CHILD HEALTH INSTITUTE
(INSTITUT HAITIEN DE L'ENFANCE - CHI)
Notes to the Fund Accountability Statement

(1) Nature of Operations and Summary of Significant Accounting Policies

a) Child Health Institute was granted legal recognition by a Law Decree published in "Le Moniteur" on January 18, 1988. Its main objective is to contribute to the national health plan.

Child Health Institute received a subgrant of U.S. $1,041,900 from the Centers of Development and Health (CDS) within the USAID/Haiti Project no 521-0194. These funds were provided for identifying, coordinating and meeting technical assistance of the entire child survival project. Funding was also used to design and implement the monitoring and evaluation system for the project. As of September 30, 1989 the total funds disbursed by CDS to Child Health Institute under this program amounted to $1,016,115.

Child Health Institute received a subgrant from the International Planned Parenthood Federation (IPPF/WHR) within the USAID/Haiti Project no. 521-0189 for an amount of $289,726 as of September 30, 1989. These funds have been provided to Child Health Institute to deliver family planning services and improve counseling services.

Child Health Institute received a subgrant from the Agency for International Development (AID) within the USAID/Haiti project no. 521-0206 for an amount of $163,940 as of September 30, 1989. These funds have been provided for the purposes of research, monitoring and evaluation of child survival, health interventions of child survival service delivery PVO's in the collection, collation, interpretation and use of technical information for management purposes.

Child Health Institute generates other revenues from the International Planned Parenthood (IPPF/WHR) for the male attitude survey in family planning project which was performed under a local purchase order. In addition, other revenue sources consisted on funding from McGill University for the Cida project and funding from the National Research Council, Care, Future Groups and PEV-Pronacodian.

b) The fund accountability statement has been prepared on the cash basis of accounting. Consequently, funding provided is recognized when received rather than when earned and expenditures are recognized when paid rather than when the obligations are incurred. The fund accountability statement does not present the funding to be received nor the accounts payable.

CHILD HEALTH INSTITUTE
(INSTITUT HAITIEN DE L'ENFANCE - CHI)

Notes to the Fund Accountability Statement

(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)

c) Expenditures are related to the disbursing of funds provided from various sources to accomplish the objectives of the projects discussed above.

d) The fund accountability statement is prepared in US dollars at the official rate of exchange of five haitian gourdes for one US dollar.

(2) Funding Provided - Other Income

The funds received from Other Sources include the following:

Male Attitude Survey * on family planning - I	$ 29,360
Male Attitude Survey * on family planning - II	51,283
Mc Gill University	41,000
National Research Council (NAS)	32,180
Futures Groups	9,410
PEV-Pronacodiam	4,174
Care	2,303
UNICEF	1,101
	$ 170,811

* The Male Attitude Survey is a purchase order financed by the International Planned Parenthood Federation Hemisphere Region (IPPF/WHR).

(3) Related Party Transaction

During the twenty five month period ended September 30, 1989, the funds of the projects of USAID/Haiti were advanced to another project component managed by Child Health Institute.

Under project no. 521-0189, two relatives of a Child Health Institute board director were hired as investigators for the project "Attitude of Young Doctors, the Family Planning and the Utilization of IUD at Cité Soleil".

The above transactions were incurred in the normal course of Child Health Institute activities.

CHILD HEALTH INSTITUTE
(INSTITUT HAITIEN DE L'ENFANCE - CHI)
Notes to the Fund Accountability Statement

(4) Fund Balance at End of Period

The fund balance is composed of the following elements:

	Project no. 521-0194	Project no. 521-0189	Project no. 521-0206
Bank balance	$ 4,408	$ 8,490	$ 31,432
Account receivable	5,163	7,564	8,510
Account payable	(41,062)	(5,230)	(6,047)
Expenses disallowed	-	1,366	-
Unexplained difference	12,757	60	(294)
	$ (18,734)	$ 12,250	$ 33,601

Excess of expenditures over funding provided in Project no. 521-0194 was covered mainly from funds received from other donors. A reconciliation of the advances made to Child Health Institute on Project no. 521-0189 is as follows:

Initial advance from IPPF/WHR	$ 94,800
Reimbursement of expenses from May 1987 to September 30, 1989	287,033
	381,833
Expenses made by Child Health Institute from May 1987 to September 30, 1989	392,057
Less direct payment	(22,474)
	(369,583)
Fund balance at end of the year	$ 12,250

(5) Questionable Costs

According to A.I.D applicable regulations, costs charged to a project must meet the following general criteria:

a. Be reasonable for the performance of the project. A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the same circumstances.

b. Be allocable to the project. A cost is allocable in accordance with the relative benefits received.

c. Conform to any limitations or exclusions set forth in the agreement in which the project is based.

CHILD HEALTH INSTITUTE
(INSTITUT HAITIEN DE L'ENFANCE - CHI)
Notes to the Fund Accountability Statement

(5) Questionable Costs (Continued)

d. Be adequately documented.

Ineligible costs are all those costs unallocable and or unallowable in accordance with the terms of the agreements and applicable laws and regulations,. Unsupported costs are all those costs not properly supported by the recipient, costs in excess of the budgeted amount per line item and costs considered unreasonable under the circumstances.

The following are costs incurred by Child Health Institute that were determined to be questionable because they did not conform or there was no adequate evidence to determine if they did indeed conform, with one or more of the above mentioned criteria:

Budget categories	Ineligible costs	Unsupported costs	Total
Project no. 521-0194:			
Operation Research - excess budget	$ -	$ 24,111	$ 24,111
Transport and travel	-	395	395
Fund balance - difference	-	12,757	12,757
Expenditures	-	388,475	388,475
	$ -	$ 425,738	$ 425,738
Project no. 521-0189:			
Uncollected exchange fee revenue	$ -	$ 3,596	$ 3,596
Operation Research - excess budget		1,936	1,936
Expenses disallowed	1,366	-	1,366
Uncollected accounts receivable from Project no. 521-0194	-	1,123	1,123
Uncollected accounts receivable from other funds	-	680	680
Fund balance-difference	-	60	60
	$ 1,366	$ 7,395	$ 8,761
Project no. 521-0206			
Fund balance-difference	-	(294)	(294)
	$ 1,366	$ 7,101	$ 8,467
Total	$ 1,366	$ 432,839	$ 434,205

CHILD HEALTH INSTITUTE
(INSTITUT HAITIEN DE L'ENFANCE - CHI)

Notes to the Fund Accountability Statement

(5) Questionable Costs (Continued)

The ineligible costs relate to electricity expense which has been disallowed by IPPF/WHR.

(6) Commitments - Project no. 521-0194

A contract has been signed between Child Health Institute and Harvard Institute for International Development to help health institutions in Haiti to provide child survival services to mothers and children in Haiti. As of September 30, 1989, $22,082 remains to be paid on the contract. This amount is included in accounts payable at that date.

KPMG Peat Marwick

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CHILD HEALTH INSTITUTE
(INSTITUT HAITIEN DE L'ENFANCE - CHI)

USAID/Haiti Project no. 521-0194
USAID/Haiti Project no. 521-0189
USAID/Haiti Project no. 521-0206
Other Income

Internal Control Structure

Independent Auditor's Report

We were engaged to audit the fund accountability statement of the Child Health Institute (CHI) including the components of the Mobilizing Mothers of Child Survival, the Private Sector Family Planning and the Voluntary Agencies for Child Survival Projects nos. 521-0194, 521-0189 and 521-0206, managed by Child Health Institute for the period September 1, 1987 to September 30, 1989 and we issued our report thereon dated June 29, 1990, in which we disclaimed an opinion due to limitations in the scope of our work.

The management of Child Health Institute 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 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.

For the purpose of this report, we have classified the significant internal control structure policies and procedures of Child Health Institute applicable to the components of USAID/Haiti Projects nos. 521-0194, 521-0189 and 521-0206, for which it is responsible, in the following categories:

- Accounting process
- Procurement system
- Payroll procedures
- Receipts and disbursements
- Travel and transport procedures
- Budgetary process.

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Due to the inadequacy of the accounting records maintained for the USAID/Haiti project no. 521-0194 and other funds, we were unable to obtain a sufficient understanding of the design of relevant policies and procedures relative to these funds and whether they have been placed in operation; nor were we able to assess control risk relative to USAID/Haiti project no. 521-0194 and Other Income. As a result, our study and evaluation did not extend beyond a preliminary review phase.

However, we noted the matters described as findings 1 to 14 in the following pages involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the fund accountability statement.

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

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe that the reportable conditions included in findings 1 to 6 in the following pages are material weaknesses.

This report is intended solely for the use of Child Health Institute and the U.S. Agency International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

KPMG Peat Marwick

June 29, 1990

CHILD HEALH INSTITUTE
(INSTITUT HAITIEN DE L'ENFANCE - CHI)

USAID/Haiti Project no. 521-0194
USAID/Haiti Project no. 521-0189
USAID/Haiti Project no. 521-0206
Other Income

Internal Control Structure

Findings

1. **Accounting records were not maintained properly**

Condition:

Several deficiencies were noted in the maintenance of the accounting records such as the non-recording of adjusting entries, incorrect recording of cross-uses of funds, disallowed expenses and inadequate corrections of the status reports. Those deficiencies were particularly acute for transactions incurred under project no. 521-0194.

Criteria:

All transactions should be properly reflected in the accounting records to provide a basis to determine the accuracy of the financial information submitted.

Cause:

Systematic accounting procedures were not followed adequately and sometimes the financial reports were prepared separately from the accounting records.

Effect:

The accounting books did not agree to the cumulative reports submitted to IPPF/WHR, CDS and VACS, and Child Health Institute. As a result we encountered great difficulties in reconciling the fund balances. We were unable to satisfy ourselves as to the adequacy of the operations of USAID/Haiti project no. 521-0194 and, as a result of the above mentioned deficiencies, all expenditures related to project no. 521-0194 amounting to $ 425,738 for the period September 1, 1987 to September 30, 1989 are considered as questionable costs.

Recommendation:

Accounting procedures should be applied consistently. The accounting records should reflect all transactions made by source of funds and the reports submitted to the grantors should be in agreement with the accounting records.

2. Child Health Institute did not reconcile its book balances to the financial reports it submitted to CDS

Condition:

Balances per Child Health Institute accounting books under project no. 521-0194 were higher by $1,483 than the total amounts of the financial reports submitted to CDS, and these reports did not coincide with the amounts reported to USAID by CDS.

Criteria:

The expense reports submitted to CDS should be prepared based on the accounting books. Any difference should be noted and explained.

Cause:

Child Health Institute management explained that these expenses were recorded into the books after submission of the reports to CDS and that information related to those expenses were submitted later to CDS, near the end of the project.

Effect:

The balance per books of some expense categories was not in agreement with the cumulative reports submitted to CDS. CHI reports were modified at several occasions and although total expenses were justified at the end of the project to CDS, they did not coincide with the amounts reported initially by CDS to USAID.

Recommendation:

Child Health Institute management should ensure that financial reports submitted are in agreement with Child Health Institute books.

3. Cross-uses of funds were inadequately recorded

Condition:

Grantor paid the expenses that should have been supported by one project with the funds of other projects and documentation was not sufficient to provide an adequate trail on amounts due to or from other funds.

Most of those types of transactions came from borrowing from the other projects' funds to pay expenses of the USAID projects. At September 30, 1989, total interfund receivables and payables amounted to $ 29,479.

Criteria:

Funds provided by a grantor should be used only for expenditures relative to the grant agreement.

Cause:

Shortage of cash on some funds prompted management to borrow from other funds. However, since cross-uses of funds were considered temporary and short-term, they were not properly recorded and reflected in the books.

Effect:

A lot of time and effort was spent to reconcile the fund balances for each component of project managed by Child Health Institute.

Recommendation:

Child Health Institute management should apply adequate fund management procedures to reduce cross-uses of funds. If such a practice is necessary, management should ensure that cross-use of funds are properly documented and recorded in the books, and that funds are reconciled for each grant.

4. **There was no policy on the nature of disbursements that were to be paid in U.S. dollars rather than in local currency**

Condition:

Child Health Institute drew checks on a U.S. bank account financed by IPPF/WHR mainly for some salary costs as well as exchanges into local currency, and for certain expenses and purchases abroad. However, there was no policy that specifies which expenses are to be paid in U.S. dollars.

Criteria:

A policy should clearly state which disbursements may be made from the bank account in U.S. dollars, due to the existing exchange premium on the U.S. dollar.

Cause:

A policy was not established since disbursements other than the regular ones mentioned above were considered on a case by case basis.

Effect:

The absence of a well defined policy as to the nature of disbursements authorized in U.S. dollars increases the risk of irregularities.

Recommendation:

Child Health Institute executive committee and the grantor should approve a policy on the type of disbursements to be paid in U.S. dollars. Transactions not covered by that policy should be approved by the committee and the grantor on a case by case basis.

5. **Two currency exchange transactions totaling $ 15,200 were not properly documented and approved**

Condition:

The supporting documentation was insufficient for two checks drawn by Child Health Institute on its U.S. bank account funded by IPPF/WHR for the exchange of checks in local currency. The transactions were approved by the Director and the exchange revenues were deposited in Child Health Institite's general funds.

Criteria:

The subgrant agreement requires that the subgrantee provides IPPF/WHR with a certificate of currency translation for any funds received in US dollars exchanged for another currency. The certificate must be approved by the Director and submitted to IPPF/WHR. The exchange premium should be deposited into the account for IPPF/WHR funds and used for the purpose of the project.

Cause:

IPPF/WHR procedures were not followed.

Effect:

The level of approval and the documentation were not sufficient. The exchange premiums were, however, subsequently reimbursed by the general fund to the IPPF/WHR funds.

Recommendation:

Transactions related to the exchange of U.S. dollars for local currency should be supported by a certificate of currency translation approved by the subgrantee officer and submitted to IPPF/WHR. The proceeds from the exchange should be deposited in the IPPF/WHR funds and used for the related project. They were subsequently reimbursed to IPPF/WHR funds.

6. Child Health Institute did not have an effective budget control system

Condition:

The actual disbursements of Child Health Institute as of September 30, 1989 for Project no. 521-0194 and project no. 521-0184 exceeded some budget line item categories over the maximum percentage allowed by USAID/Haiti and IPPF/WHR as follows:

	Budget	Actual	Excess of budget over actual	% of excess
Project no. 521-0194				
Operation Research	$ 18,017	$ 42,128	$ (24,111)	57%
Project no. 521-0189				
Operation Research	$ -	$ 1,936*	$ (1,936)	100%
			$ (26,047)	

Criteria:

An effective budget control system should be established to assure that actual disbursements are approved within the limits of the budget.

* These expenses and corresponding excess over budget concern the 1989 budget only. Therefore, this amount does not agree with total amount per fund accountability statement, because the fund accountability statement reflects the budget as approved by AID.

Cause:

The initial budget for Project no. 521-0189 was approved nine months after its submission and requests for amendment could not be considered until the grant was signed.

The excess budget for Project no. 521-0194 is due mainly to the recording of two research projects, HIRSH and Rougeolle, in the Operation Research budget line item, because a separate line item for these projects was not included in the budget.

Effect:

Actual disbursements amounting to $ 26,047 in some categories exceeded the budget by 15% or more, without a written approval, may be disallowed by the donors.

Recommendation:

Child Health Institute should put in place an encumbrance journal, as required by USAID, as well as a management control system to properly forecast actual expenditures, and take the necessary steps to request amendments of the budget, if necessary.

7. **Two invoices were missing from Child Health Institute files**

Condition:

Two invoices amounting to $ 1,999, out of twenty-six invoices examined under the project no. 521-0194 were not found during our audit. They were provided after the exit conference.

Criteria:

According to Child Health Institute procedures all invoices should be attached to the check copies and filed in the folder of the month.

Cause:

The two invoices were not found in the expense files; Child Health Institute management explained that those invoices were misplaced. They were submitted to us later.

Effect:

The documents supporting the above expenses were inadequately filed.

Recommendation:

Child Health Institute should ensure proper filing of such documents.

8. Child Health Institute did not have a defined method of allocation for common costs between projects

Condition:

Allocation of expenses such as photocopy, vehicle repairs and supplies between the projects managed by Child Health Institute is done on an arbitrary basis, depending on the availability of funds.

Criteria:

The allocation of expenses between the projects should be based on the level of activity of each project.

Cause:

Child Health Institute does not have established procedures related to accounting between projects.

Effect:

The allocation of costs is based upon the availability of funds of the projects.

Recommendation:

We recommend that a policy be established for the allocation of expenses between the projects. Factors such as the percentage of activity, or direct use by a project should be taken into account.

9. Child Health Institute did not always follow established procedures for voucher approval

Condition:

Three out of the twenty-six check vouchers examined under project no. 521-0194 were not signed by the Executive Director, one item was not sufficiently supported, and three others were not found.

Criteria:

According to Child Health Institute procedures, all check vouchers must be signed by the executive director and the executive officer of the project before signing the checks.

Cause:

The disbursements were not well planned in advance, sometimes causing last minute rush, in the absence of the Executive Director.

Effect:

The procedures at Child Health Institute did not comply with established procedures. Even if the Executive Director was aware of the disbursements, his approval was not documented.

The disbursement which was not sufficiently supported has been reported as a questionable item.

Recommendation:

Child Health Institute should reinforce its organizational structure to ensure the proper application of procedures and controls approved by the board and ascertain that all purchases are well documented prior to payment.

10. Child Health Institute did not obtain bid quotations for all procurements

Condition:

Child Health Institute did not obtain bid quotations for some purchases in excess of $250, as required by the standard provisions included as part of the project agreements signed with USAID/Haiti.

Criteria:

According to A.I.D requirements, three bid quotations must be obtained for all procurements of goods in excess of $ 250.

Cause:

Information obtained indicated that often only one supplier had the goods needed or that some suppliers did not want to provide quotations.

Effect:

There was no evidence that Child Health Institute obtained the best terms and conditions available to the project for these purchases. However, the prices paid were found to be reasonable based on the prevailing market conditions.

Recommendation:

Child Health Institute should adhere to procurement procedures and controls required by project agreements to ensure that all purchases are procured at the most advantageous terms and conditions available to the project.

Any exception to these procedures should be properly documented by management.

11. Child Health Institute lacked a defined method of allocating salary costs between projects

Condition:

Salary allocation between projects were not based on employee involvement in each project. The allocation basis was established at the beginning of the project, based on the budget established by each project agreement.

Criteria:

Allocation of salary cost between the projects should be based on the level of participation of each employee to the project activities.

Cause:

Salary allocation was done arbitrarily for each project, based on the availability of funding. The basis for the allocation of salary costs is done based on the grant budgets which in the opinion of management, approximates the time invested in each project.

Effect:

The allocation of salary costs between projects is based on established budgets. Since both projects related to USAID funding and all employees were actually assigned to these projects, this deficiency has not resulted in questionable costs.

Recommendation:

We recommend that Child Health Institute's management document the rationale used for the allocation of salaries based on level of participation in each project's activities, as analyzed and agreed upon by the grantors.

12. Two checks have been outstanding for more than two years

Condition:

Two checks amounting to $ 530 have been outstanding for more than two years.

Criteria:

A check outstanding for a period exceeding three months should be systematically investigated. The bank reconciliations should be reviewed systematically.

Cause:

The oustanding checks were noted in the bank reconciliation but were not investigated.

Effect:

The checks were not cancelled and were not restored to cash.

Recommendation:

We recommend that the oustanding checks be promptly investigated and restored to cash. The reconciling items should be investigated by the administration.

13. A contract for technical assistance could not be traced to Child Health Institute files

Condition:

A contract under the expense categories of technical assistance could not be traced to Child Health Institute files.

Criteria:

All contracts must be properly documented in Child Health Institute files.

Cause:

The contract was kept at CDS and management believed that this was sufficient documentation.

Effect:

The technical assistant's salary could not be verified to the authorization document.

Recommendation:

We recommend that all contracts be documented in the files of the technical assistant. Child Health Institute management has to assure that a copy has been obtained from the grantor.

14. Two employees' contracts were not signed

Condition:

Under the project no. 521-0194, we noted that for two employees their contracts were not signed by the employee or by Child Health Institute management.

Criteria:

All contracts must be properly approved and documented.

Cause:

Management believed that approval of the payroll sheets was sufficient documentation.

Effect:

There is no document authorization proving employment.

Recommendation:

We recommend that all contracts be signed and documented in the employee files.

KPMG Peat Marwick

Certified Public Accountants

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CHILD HEALTH INSTITUTE
(INSTITUT HAITIEN DE L'ENFANCE - CHI)

USAID/Haiti Project no. 521-0194
USAID/Haiti Project no. 521-0189
USAID/Haiti Project no. 521-0206
Other Income

Compliance with the Terms of Agreements and Applicable Laws and Regulations

Independent Auditor's Report

We were engaged to audit the fund accountability statement of the Child Health Institute (CHI) including the components of the Mobilizing Mothers of Child Survival, the Private Sector Family Planning and Voluntary Agencies for Child Survival, Projects no. 524-0194, 521-0189 and 521-0206 managed by CHI for the period September 1, 1987 to September 30, 1989 and we issued our report thereon dated June 29, 1990, in which we disclaimed an opinion due to limitations in the scope of our work.

The management of Child Health Institute is responsible for Child Health Institute's compliance with the terms of agreements and applicable laws and regulations.

Due to the inadequacy of the accounting records maintained for the USAID/Haiti project no. 521-0194 and other funds, we were unable to obtain sufficient documentation supporting the Child Health Institute's compliance with the terms of agreements and applicable laws and regulations, nor were we able to satisfy ourselves as to the Child Health Institute's compliance with these requirements by other auditing procedures.

Because of the matter described in the preceding paragraph, the scope of our audit work is not sufficient to enable us to provide, and we do not provide, any assurance on tested, or untested items as to their compliance with the terms of agreements and applicable laws and regulations.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts or grants that cause us to conclude that the aggregation of the misstatements resulting from these failures or violations is material to the fund accountability statement. The results of our tests of compliance disclosed the material instances of non compliance described as findings 1 and 2 on the following pages.

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We considered these material instances of noncompliance in forming our opinion on whether CHI's fund accountability statement is presented fairly, in all material respects in conformity with generally accepted accounting principles, and this report does not affect our report dated June 29, 1990 on this financial statement.

This report is intended solely for the use of the U.S. Agency International Development and Child Health Institute. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

KPMG Peat Marwick

June 29, 1990

CHILD HEALTH INSTITUTE
(INSTITUT HAITIEN DE L'ENFANCE - CHI)

USAID/Haiti Project no. 521-0194
USAID/Haiti Project no. 521-0189
USAID/Haiti Project no. 521-0206
Other Income

Compliance with the Terms of Agreements and Applicable Laws and Regulations

Findings

1. Two budget variances exceeded the 15 per cent limit

Condition:

CHI has exceeded the budget line item category for operation research on Project no. 521-0194 by fifty-seven per cent (57%) without the approval of CDS, and actual expenditures on Project no. 521-0189 exceeded the operation research category by 100% in 1989.

Criteria:

The grantee shall request approval from the grantor when there is reason to believe that within the next 30 calendar days a revision of the approved grant budget will be necessary.

Cause:

The initial budget for Project no. 521-0189 was approved nine months after its submission and requests for amendment could not be considered until the grant was signed.

Effect:

The disbursements exceeding budget by more than 15% in the amount of $26,047 are questionable costs as stated in note 5 to the fund accountability statement.

Recommendation:

Child Health Institute should put in place an encumbrance journal, as required by USAID/Haiti, as well as a management control system to forecast actual expenditures and take the necessary steps to request amendments of the budget, if necessary.

2. Payroll taxes were not withheld

Condition:

Child Health Institute neither declared employees' salaries to tax authorities nor made withholding for Social Security (Office Nationale d'Assurance - ONA).

Criteria:

All organizations should comply with Haitian laws which include payroll withholdings.

Cause:

Previous laws were not explicit on the tax obligations of nonprofit organizations and their employees. Consequently, payroll taxes have never been withheld nor claimed by the tax authorities.

Effect:

The institution may have a contingent liability for taxes not withheld. We were unable to estimate the amount of the contingent tax liability, due to insufficient documentation.

Recommendation:

We recommend that the organization obtain a statement from the tax authorities or discuss with them the tax status of its employees, in view of the fact that salaries of employees of nonprofit organizations may be tax exonerated.

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CHILD HEALTH INSTITUTE
(INSTITUT HAITIEN DE L'ENFANCE - CHI)

USAID/Haiti Project no. 521-0194
USAID/Haiti Project no. 521-0189
USAID/Haiti Project no. 521-0206
Other Income

Management Capability

Independent Auditor's Report

We have performed a study and evaluation of the Child Health Institute's capability to properly manage the components of USAID/Haiti Projects no. 521-0194, no. 521-0189, no. 521-0206, components for which it is responsible. Except as discussed in the following paragraph, our work was conducted in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision), and included those areas we considered relevant to the criteria expressed in the statement of work for review of the above mentioned projects:

- accuracy and timeliness of submission of reports and other project documentation
- performance of financial management and accuracy of financial projections in relation to project needs
- documentation and application of procedures that meet the requirements of the donors.

The Child Health Institute did not maintain adequate accounting records and sufficient evidential documents for the expenses related to USAID/Haiti project no. 521-0194 funding and Other Income. Consequently, we were unable to apply other auditing procedures to satisfy ourselves as to the adequacy of the USAID/Haiti project no. 521-0194 and as to the completeness of the Other Income, and the scope of our work was not sufficient to enable us to express and we did not express an opinion on the related fund accountability statement. Due to the above scope limitations, we are not in a position to express and we do not express an opinion on CHI's capability to manage USAID projects nos. 521-0194, no. 521-0189 and 521-0206. The deficiencies noted are described in the accompanying findings nos. 1 and 2.

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This report is intended solely for the use of the Child Health Institute (CHI) and the United States Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the office of the Inspector General, is a matter of public record.

KPMG Peat Marwick

June 29, 1990

CHILD HEALTH INSTITUTE
(INSTITUT HAITIEN DE L'ENFANCE - CHI)

USAID/Haiti Project no. 521-0194
USAID/Haiti Project no. 521-0189
USAID/Haiti Project no. 521-0206
Other Income

Management Capability

Findings

1. Accounting records were not maintained properly

Condition:

Several deficiencies were noted in the maintenance of the accounting records such as the non-recording of adjusting entries, incorrect recording of cross-uses of funds, disallowed expenses and inadequate corrections of the status reports. Those deficiencies were particularly acute for transactions incurred under project no. 521-0194.

Criteria:

All transactions should be properly reflected in the accounting records to provide a basis to determine the accuracy of the financial information submitted.

Cause:

Systematic accounting procedures were not followed adequately and sometimes the financial reports were prepared separately from the accounting records.

Effect:

The accounting books did not agree to the cumulative reports submitted to IPPF/WHR, CDS and VACS, and Child Health Institute. As a result we encountered great difficulties in reconciling the fund balances. We were unable to satisfy ourselves as to the adequacy of the operations of USAID/Haiti project no. 521-0194 and, as a result of the above mentioned deficiencies, all expenditures related to project no. 521-0194 amounting to $ 425,738 for the period September 1, 1987 to September 30, 1989 are considered as questionable costs.

Recommendation:

The accounting procedures should be applied consistently. The accounting records should reflect all transactions made by source of funds and the reports submitted to the grantors should be in agreement with the accounting records.

2. Child Health Institute lacked proper financial planning procedures

Condition:

During the period under audit, there was extensive cross-use of funds between projects, caused by improper financial planning procedures. Cash shortages in some projects occured often and were compensated by other sources of funds without prior approval of the grantors.

Criteria:

Activities of a project should be performed based on budget and cash flow availability of the specific project. Cash projections should be efficient and shortages due to unusual circumstances should be foreseen and discussed well in advance with the grantors to arrive at mutually acceptable decisions.

Cause:

We did not find evidence of systematic cash flow projections, and cash management seemed to have been done on a crisis basis. Accounting data were also late and sometimes affected the accuracy of the information available for decision making.

Effect:

This resulted in extensive borrowing of funds between projects, which remained outstanding for long periods of time.

Recommendation:

Child Health Institute should prepare weekly cash flow projections for each project and schedule activities or transactions based on the availability of funds for that project. The budget balance per category and accurate accounting data should be provided on a timely basis in order to allow for adequate decision making.

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USAID/Haiti Project no. 521-0194
USAID/Haiti Project no. 521-0189
USAID/Haiti Project no. 521-0216
Other Income

Financial Capability

Independent Auditor's Report

We have performed a study and evaluation of the Child Health Institute's financial capability in connection with the USAID/Haiti Projects no. 521-0194, no. 521-0189, no. 521-0216, components for which it is responsible. Except as discussed in the following paragraph, our work was conducted in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision), and included the following areas we considered relevant to the criteria expressed in the statement of work for review of the above mentioned projects:

- adequacy of accounting records
- adequacy of financial management information and accounting system.

The Child Health Institute did not maintain adequate accounting records and sufficient evidential documents for the expenses related to USAID/Haiti project no. 521-0194 funding and Other Income. Consequently, we were unable to apply other auditing procedures to satisfy ourselves as to the adequacy of the USAID/Haiti project no. 521-0194 and as to the completeness of the Other Income, and the scope of our work was not sufficient to enable us to express and we did not express an opinion on the related fund accountability statement. Due to the above scope limitations, we are not in a position to express and we do not express an opinion on CHI's capability to manage USAID projects nos. 521-0194, no. 521-0189 and 521-0206. The deficiencies noted are described in the accompanying findings nos. 1 and 2.

This report is intended solely for the use of the Child Health Institute (CHI) and the United States Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

KPMG Peat Marwick

June 29, 1990

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CHILD HEALTH INSTITUTE
(INSTITUT HAITIEN DE L'ENFANCE - CHI)

USAID/Haiti Project no. 521-0194
USAID/Haiti Project no. 521-0189
USAID/Haiti Project no. 521-0206
Other Income

Financial Capability

Findings

1. **Child Health Institute did not have an integrated financial management information and accounting system for the institution taken as a whole**

Condition:

Child Health Institute prepared financial reports only for individual project funds, as requested by the grantors, which represent approximately 90% of its total revenues.

Criteria:

Properly integrated financial management information and accounting systems for the institution, as well as for its individual programs, has been implemented but not used efficiently.

Cause:

The accounting system was designed to reflect the transactions of individual project funds, and the whole institution but it is not applied by Child Health Institute management. The new accounting system is in the process of being implemented.

Effect:

The financial information generated by the current financial accounting system did not reflect the overall operations of the institution.

Recommendation:

Child Health Institute should systematically implement the financial accounting system currently in process in order to generate complete and reliable information.

2. Accounting records were not maintained properly

Condition:

Several deficiencies were noted in the maintenance of the accounting records such as the non-recording of adjusting entries, incorrect recording of cross-uses of funds, disallowed expenses and inadequate corrections of the status reports. Those deficiencies were particularly acute for transactions incurred under project no. 521-0194.

Criteria:

All transactions should be properly reflected in the accounting records to provide a basis to determine the accuracy of the financial information submitted.

Cause:

Systematic accounting procedures were not followed adequately and sometimes the financial reports were prepared separately from the accounting records.

Effect:

The accounting books did not agree to the cumulative reports submitted to IPPF/WHR, CDS and VACS, and Child Health Institute. As a result, we encountered great difficulties in reconciling the fund balances. We were unable to satisfy ourselves as to the adequacy of the operations of USAID/Haiti project no. 521-0194 and, as a result of the above mentioned deficiencies, all expenditures related to project no. 521-0194 amounting to $ 425,738 for the period September 1, 1987 to September 30, 1989 are considered as questionable costs.

Recommendation:

The accounting procedures should be applied consistently. The accounting records should reflect all transactions made by source of funds and the reports submitted to the grantors should be in agreement with the accounting records.

CHILD HEALTH INSTITUTE
(INSTITUT HAITIEN DE L'ENFANCE - CHI)

USAID/Haiti Project no. 521-0194
USAID/Haiti Project no. 521-0189
USAID/Haiti Project no. 521-0206
Other Income

List of Report Recommendations

I. Internal Control Structure

1. Accounting procedures should be applied consistenly

2. Expense reports should be in agreement with the books of institution

3. Adequate fund management procedures should be applied to reduce cross-use of funds

4. A policy on the type of disbursements to be paid in U.S. dollar should be approved by CHI and the grantor

5. Transactions related to the exchange of U.S. dollars for local currency should be supported

6. An encumbrance journal should be put in place to properly forecast actual expenditures

7. Filing of documents should be revised

8. A policy for the allocation of expenses between projects must be established

9. Organizational structure should be reinforced

10. CHI should adhere to procurement procedures and controls required by project agreement

11. Salary costs between projects should be documented

12. Outstanding checks should be promptly investigated

13. All contracts related to technical assistance must be documented

14. Employee contracts must be signed.

II. Compliance with the terms of the Agreements and applicable laws and regulations

1. An encumbrance journal should be put in place to avoid exceeding budget

2. A statement from the tax authorities should be obtained.

III. Management Capability

1. Accounting procedures should be applied consistenly

2. Cash flow projections for each project should be prepared weekly

IV. Financial Capability

1. The financial accounting system currently in process should be implemented systematically

2. Accounting procedures should be applied consistenly

Annex I

INSTITUT HAITIEN DE L'ENFANCE
P.O. Box 13489, Delmas, Haiti

Mrs. Mireille Merovee-Pierre, C.P.A.H.
Merovee-Pierre et Associes,
Comptables Professionels Agrees Haitiens,
Boulevard Haile SELASSIE, 47
Delmas, Haiti.

October 10, 1990

Re : Management comments to audit of projects 521-0194, 521-0189, 521-0206

Dear Mrs. Merovee-Pierre,

We are pleased to submit our management comments pertaining to the financial audit of the Child Health Institute and the activities of the Mobilizing Mothers for Child Survival, the Private Sector Family Planning and the Voluntary Agencies for Child Survival, USAID-Haiti projects Nos. 521-0189, 521-0194 and 521-0206, components managed by CHI, for the period September 1, 1987 to September 30, 1989.

We take this opportunity to ask that you convey our appreciation to Ms. Dominique Boyer and your staff for their hard work and spirit of cooperation.

As for the audit per se, we would like to mention that we accept all of the recommendations of the auditors and that we have worked diligently, even prior to September 1989,the end date for the audit, to implement these recommendations. We will present evidence that the vast majority of the problems mentioned in the audit are now behind us. The sole exception, we feel, is in establishing a satisfactory way of distributing costs between projects, in the absence of an overhead system, a matter for which we are currently receiving technical assistance.

We were perplexed that the entire amount of expenses for the audit period for project No. 521-0194 ($425,738.00) was put in the "questionable costs" category, particularly in view of the fact that the grant manager and principal grantee, CDS, accepted Life of project expenses totaling $1,041,415.41

In addition, we noted some errors pertaining to the fund balance and the allocation of some expenses to certain line items.

None of these points detract from the fact that the auditors recommendations are quite valid. We sustained an audit of project 521-0189 for the period of January to December 1989 the result of which was an unqualified opinion. In addition, we incurred expenditures of $394,408.25 between the period of October 1988 to August 1990 for project No. 521-0206 with no expense disallowed. These two points suggest that we have been somewhat successful in implementing these recommendations. We are confident that an institutional audit for the period of October 1989 to September 1990 will be further documentation of this.

Our immediate concern of course is on resolving this issue of questionable costs. We are ready to make available to USAID the receipts for these costs. We are open to any additional step which would put us in compliance with USAID requirements on the matter if you feel that, after reviewing our comments, these steps are necessary. Should that be the case, we will require an extension of the 30-day limit in order to comply.

Sincerely Yours,

Antoine Augustin, M.D.,M.P.H.,
Director,
Child Health Institute.

cc : Mr. Reginald Howard,
Regional Inspector General
Tegucigalpa, Honduras, C.A.

Mr. Igor Nesterczuk
Comptroller, USAID-Haiti

Mr. David Eckerson
Chief, HPN, USAID-Haiti

Mr. Lynn V. Marshall,
Chief of Party, URC/ VACS

encl. : SEE LISTING ATTACHED

BEST AVAILABLE COPY

RECOMMENDATIONS CONTAINED IN AUDIT REPORT

1. Accounting procedures should be applied consistently: see Accounting Procedures manual and status report.

2. Expense reports should be in agreement with the books: see status report, USAID/IPPF/CHI ACTION PLAN. (In application since May 30, 1990)

3. Adequate procedures to reduce cross-use of funds: see status report, USAID/IPPF/CHI ACTION PLAN. (In application since May 30, 1990)

4. Policy on US dollar disbursements should be elaborated: done

5. Exchange currency transactions should be well documented; policy is in place and is being followed. (August 1990)

6. Encumbrance journals: implemented: September 1990

7. Classification of documents should be revised: implemented July 1989.

8. A policy on cost allocation; policy exists based on negotiations with grantors but is inadequate. We have requested technical assitance in this matter from URC/VACS June 8, 1990

9. Reinforce organizational structure: this was done after CHI procured technical assistance in general management with a management consulting firm. The recommendations of the firm pertaining to organizational structure were implemented. (Roy & Associes, May 1989)

10. Adherence to procurement procedures: procedures pertaining to procurement have been strengthened considerably. CHI managment has noted that it takes an average of 7 signatures before a check goes out (see procedures manual complement). (July 1989).

11. Salary costs betwen projects should be documented: CHI has implemented a system of time sheets for its employees. (May 1990)

12. Oustanding checks should be promptly investigated: this is being done.

13. All contracts related to technical assistance must be documented: all consultants sign a contract with CHI.

14. Employees contracts must be signed: this policy is presently enforced at CHI.