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**Regional Inspector General for Audit  
Singapore**

**AUDIT OF  
USAID/PAKISTAN AND AFGHANISTAN'S  
COOPERATIVE AGREEMENTS NO. 306-0211-A-00-1214-00 AND  
306-0211-A-00-0961-00 WITH  
MERCY CORPS INTERNATIONAL  
PAKISTAN**

**Audit Report No. 5-391-95-003-N  
February 10, 1995**



BEST AVAILABLE

FINANCIAL INFORMATION IN THIS REPORT MAY BE  
PRIVILEGED. THE RESTRICTIONS OF 18 USC 1905  
SHOULD BE CONSIDERED BEFORE ANY  
INFORMATION IS RELEASED TO THE PUBLIC.



**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

February 10, 1995

TO: John S. Blackton, Mission Director  
USAID/Pakistan

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

SUBJECT: Audit of USAID/Pakistan and Afghanistan's Cooperative Agreement  
Nos. 306-0211-A-00-1214-00 and 306-0211-A-00-0961-00 with  
Mercy Corps International (MCI)  
Report No. 5-391-95-003-N

Enclosed are five copies of the subject audit report (prepared by the accounting firm of Ford, Rhodes, Robson, Morrow) for your action. The audit covered the period from January 1, 1993, to December 31, 1993. During this period, MCI reported that it received \$3,192,367 and spent \$1,727,937 of that amount. The background information on the grant and the project is presented on page 1 of the report.

The audit objectives were to:

- Determine whether MCI's Fund Accountability Statement presents fairly the receipts and costs incurred under the cooperative agreements;
- Report on MCI's system of internal controls; and
- Report on MCI's compliance with applicable laws, regulations, and terms of the cooperative agreements.

The auditors concluded that:

- Except for \$200,235 in questioned costs, MCI's Fund Accountability Statement presents fairly the receipts and costs incurred under the agreements;

- MCI's internal controls had five reportable conditions, all of which were not considered to be material weaknesses; and
- Except for the material instances on noncompliance which gave rise to the questioned costs, MCI complied in all material respects with applicable laws, regulations, and terms of the cooperative agreement.

This audit report contains six findings and recommendations which include questioned costs of \$200,235. MCI agreed with some findings and provided further explanations for others. Their comments are presented in their entirety as Appendix C of the report.

Because of the intended closure of USAID/Pakistan, we are not making recommendation to address the internal control findings identified in the report. However, the following recommendation will be included in the Inspector General's recommendation follow-up system:

**Recommendation No. 1: We recommend that USAID/Pakistan resolve the \$200,235 in questioned costs (\$8,193 ineligible and \$192,042 unsupported) with Mercy Corps International and recover any amounts determined to be unallowable.**

We appreciate the courtesies and cooperation USAID/Pakistan and MCI extended to the auditors and our staff during the course of this audit.

Please advise me within 30 days of any actions planned or taken to close the above recommendations.

Attachment: a/s



FINANCIAL AUDIT OF  
MERCY CORPS INTERNATIONAL (MCI) PAKISTAN  
PERFORMED AND PREPARED  
BY  
FORD, RHODES, ROBSON, MORROW,  
CHARTERED ACCOUNTANTS  
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FINANCIAL AUDIT OF  
MERCY CORPS INTERNATIONAL (MCI) PAKISTAN

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December 11, 1994.

Mr. Richard C. Thabet,  
Regional Inspector General for Audit, Singapore,  
US Agency for International Development,  
302, Orchard Road,  
No.03-01 Tong Building,  
Singapore - 0923.

Dear Mr. Thabet,

This report presents the results of our audit of Mercy Corps International (MCI) Pakistan pertaining to its PVO Support Projects with the United States Agency for International Development, Pakistan and Afghanistan (USAID/Pakistan and Afghanistan), and in respect of the period commencing from January 1, 1993 to December 31, 1993 for the following Co-operative Agreements -

306-0211-A-00-0961-00  
306-0211-A-00-1214-00

### Background

MCI was incorporated under the laws of the State of Washington as a nonprofit corporation. The Organization's purpose is to assist the world's poor through emergency relief, self-help development projects and development education.

#### Cooperative Agreement No.306-0211-A-00-1214-00

MCI has since June 1986 operated a health program from Quetta to support community health services in eight provinces in south and southwest Afghanistan. The MCI Program was developed as a humanitarian program for Afghanistan in cooperation with Afghans who had come to Quetta from Kandahar to escape the effects of war. The program was originally designed to meet the emergency medical needs in the area. With the reduction in fighting, MCI is now involved in a program to meet community health needs. Under the terms of the cooperative agreement, MCI, in collaboration with the then O/AID/Rep, working with other cross-border implementing agencies in health, had undertaken activities to improve the health system inside Afghanistan while at the same time reducing the recurrent costs to make the health system affordable to the future Afghan Government and probable future donor inputs into the health sector.

#### Cooperative Agreement No.306-0211-A-00-0961-00

Prior to the war, southwest Afghanistan was a region of significant agricultural production producing a large quantity of surplus wheat for distribution to wheat deficit regions of the country. Since the war, wheat and fruit production has dropped dramatically, as much as 75% in some regions, due to multiple effects of abandonment of fields and orchards, reduced irrigation from lack of maintenance, and availability of improved seed, nursery stock, fertilizers and pesticides. Under the terms of this agreement, MCI in collaboration with USAID and its contractors under the Agriculture Sector Support Project, are involved in activities to restore agricultural capacity in southwest Afghanistan. These activities include those which promote the production, marketing and processing of food grain and cash crops.

Mr. Richard C. Thabet,  
Regional Inspector General for Audit, Singapore,  
US Agency for International Development,  
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Audit Objectives and Scope of Work

We have conducted a financial audit of MCI's Fund Accountability Statements as they relate to the two grants received under the PVO Support Projects for the period commencing from January 1, 1993 to December 31, 1993 for the following Co-operative Agreements -

306-0211-A-00-0961-00  
306-0211-A-00-1214-00

The Fund Accountability Statements comprise the Revenue and Expenditure Statements for each grant for the above periods and the notes thereon. The results of our work are reflected in the accompanying Independent Auditors' Report on the :

- a) Fund Accountability Statements of each grant;
- b) System of internal controls; and
- c) Compliance with the terms of agreements, applicable laws and regulations.

The objectives of our work were to :

- a) Determine whether the Fund Accountability Statement of each grant for MCI presents fairly the revenue, expenditure and cash balances covering audit period in accordance with the terms of agreements with USAID/Pakistan and Afghanistan;
- b) Report on MCI's system of internal controls; and
- c) Report on MCI's compliance with applicable laws, regulations and agreement terms.

Our audit was conducted in accordance with generally accepted auditing standards and US Government Auditing Standards and, accordingly, included such tests as we considered appropriate in order to attain our audit objectives.

Mr. Richard C. Thabet,  
Regional Inspector General for Audit, Singapore,  
US Agency for International Development,  
302, Orchard Road,  
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Audit Results

a) Opinion on the Fund Accountability Statements

- i) In respect of the Fund Accountability Statements, the inadequacy of sufficient records at the time of our audit resulted in our inability to determine the allocability, allowability and reasonableness of certain costs, totalling to approximately US \$ 200,235 (see Appendix A), analysed under each individual grant as follows :

Co-operative Agreements -	Rupees	US \$ Equivalent
Unsupported		
306-0211-A-00-0961-00	2,289,889	82,571
306-0211-A-00-1214-00	3,017,419	109,471
	<u>5,307,308</u>	<u>192,042</u>
Ineligible		
306-0211-A-00-1214-00	232,887	8,193
	<u>5,540,195</u>	<u>200,235</u>
	=====	=====

- ii) Remittances of fund to Pakistan in Afghani currencies generated inside Afghanistan against sale of DPA and back sprayer were converted using certain rates, however MCI failed to provide any documents supporting the rates used for such conversion.

Except for the matters set out in the preceding paragraphs, the Fund Accountability Statements are fairly presented in all material respects, and are in conformity with the basis of accounting described in Note 1 to the Fund Accountability Statements.

b) System of Internal Controls

In accordance with paragraph 19 of chapter 5 of US Government Auditing Standards, we limited our reliance on MCI's internal control structure as our preliminary evaluation of such controls revealed that an adequate structure which is generally required is not in existence as major expenditures are incurred in Afghanistan. In order to maintain the efficiency of our audit, we, therefore, extended our substantive testing.

Mr. Richard C. Thabet,  
 Regional Inspector General for Audit, Singapore,  
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 302, Orchard Road,  
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During the course of our audit, we noted certain matters involving the internal control structure and its operations that we consider to be reportable conditions. These items were considered to be material weaknesses and have been detailed on pages 11 to 18 of our report.

c) Compliance with Agreement Terms, Applicable Laws and Regulations

The results of our testing of transactions and records selected disclosed instances of non-compliance with agreement terms, applicable laws and regulations, the effects of which have not been corrected in the Fund Accountability Statements. The findings on non-compliance are set out on pages 20 to 21 and Appendix A.

Except as described above, the results of our tests of compliance indicate that with respect to the items tested, MCI complied, in all material respects, with the provisions referred to above. With respect to items not tested, nothing came to our attention that caused us to believe that MCI had not complied, in all material respects, with those provisions.

Total USAID/Pakistan and Afghanistan reimbursed questioned costs amounted to US \$ 200,235 (US \$ 192,042 unsupported and US \$ 8,193 ineligible), see Appendix A.

We noted that no audit of MCI had been carried out in the past, therefore, there were no prior findings and recommendations.

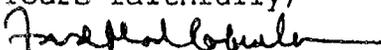
Comments on Findings and Recommendation

The management of MCI has given detailed comments to our findings and recommendations and the same are fully set out in Appendix-C. They have requested certain clarification in respect of our finding relating to voucher 70/J-0348 for Rs.1,051 referred to in Appendix A-3, which we have provided.

Acknowledgements

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

Yours faithfully,





FINANCIAL AUDIT OF  
MERCY CORPS INTERNATIONAL (MCI) PAKISTAN

REPORT ON  
THE FUND ACCOUNTABILITY STATEMENTS

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Mr. Richard C. Thabet,  
Regional Inspector General for Audit, Singapore,  
US Agency for International Development,  
302, Orchard Road,  
No.03-01 Tong Building,  
Singapore - 0923.

Dear Mr. Thabet,

MERCY CORPS INTERNATIONAL  
PERTAINING TO ITS PVO SUPPORT PROJECTS WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN PAKISTAN AND AFGHANISTAN

INDEPENDENT AUDITORS' REPORT ON THE FUND  
ACCOUNTABILITY STATEMENTS

1. We have audited the Fund Accountability Statements of Mercy Corps International pertaining to its PVO Support Projects (MCI) with the United States Agency for International Development, Pakistan and Afghanistan (USAID/Pakistan and Afghanistan) in respect of the period commencing from January 1, 1993 to December 31, 1993 for the following Co-operative Agreements -  
  
306-0211-A-00-0961-00  
306-0211-A-00-1214-00
2. The Fund Accountability Statements reflect only the transactions of MCI as they pertain to its PVO Support Projects for the period mentioned above and are not intended to report fairly the revenue and expenditure of MCI as a whole.
3. The preparation of these Statements, comprising the Revenue and Expenditure Statement for each grant for the above period and the notes thereon, is the responsibility of MCI's management. Our responsibility is to express an opinion on the Statements based on our audit.
4. We conducted our audit in accordance with generally accepted auditing standards and US Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.
5. In respect of the Fund Accountability Statements, the inadequacy of sufficient records at the time of our audit resulted in our inability to determine the allocability, allowability and reasonableness of certain costs, totalling to approximately US \$ 200,235 (See Appendix A) analysed under each individual grant as follows :

MERCY CORPS INTERNATIONAL  
 PERTAINING TO ITS PVO SUPPORT PROJECTS WITH THE  
 UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
 IN PAKISTAN AND AFGHANISTAN

INDEPENDENT AUDITORS' REPORT ON THE FUND  
ACCOUNTABILITY STATEMENTS

Co-operative Agreements -	Rupees	US \$ Equivalent
Unsupported		
306-0211-A-00-0961-00	2,289,889	82,571
306-0211-A-00-1214-00	3,017,419	109,471
	<u>5,307,308</u>	<u>192,042</u>
Ineligible		
306-0211-A-00-1214-00	232,887	8,193
	<u>5,540,195</u>	<u>200,235</u>
	=====	=====

6. Remittances of fund to Pakistan in Afghanistani currencies generated in Afghanistan against sale of DPA and back sprayers were converted using certain rates, however MCI failed to provide us with any documents supporting the rates used for such conversion.
7. Our examination of transactions on a test basis revealed a number of costs incurred in Afghanistan which were either not supported by source documents or improperly supported. Upon our inquiry with MCI's management, we were informed that they do not require to obtain and maintain source documents for costs incurred in Afghanistan. Our attention was also drawn to the following clause of the PVO Support Projects -

"Special Audit Provisions

Based upon Section 451 approval by the USAID/Pakistan and Afghanistan Representative, the provisions of this Agreement with respect to accounting, records and audit shall not apply to operational costs incurred by the Recipient within Afghanistan and end-use-checks of commodities and equipment located within Afghanistan. However, the Recipient agrees to the maximum reasonable extent to exercise prudent oversight of such operational costs and commodities. Further, the Recipient agrees to report in detail on such costs and commodities as part of this Agreement's reporting requirements."

Accordingly, we did not treat the above expenses as questioned costs. However, the same have been detailed in Appendix B for your information.

8. Except for the matters set out in paragraphs 5, 6 and 7, the Fund Accountability Statements are fairly presented, in all material respects, in conformity with the basis of accounting described in note 1 to the Fund Accountability Statements.

MERCY CORPS INTERNATIONAL  
PERTAINING TO ITS PVO SUPPORT PROJECTS WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN PAKISTAN AND AFGHANISTAN

INDEPENDENT AUDITORS' REPORT ON THE FUND  
ACCOUNTABILITY STATEMENTS

9. This report is intended solely for the use of USAID/Pakistan and Afghanistan and MCI and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the USAID Regional Inspector General for Audit, Singapore, is a matter of public record.



Chartered Accountants.

## MERCY CORPS INTERNATIONAL

CO-OPERATIVE AGREEMENT NO. 306-0211-A-00-0961-00  
 FUND ACCOUNTABILITY STATEMENT  
 FOR THE PERIOD FROM JANUARY 1, 1993 TO DECEMBER 31, 1993

	<u>CONTRIBUTION</u>	
	<u>Rupees</u>	<u>US \$ Equivalent</u>
<u>REVENUE</u>		
Grant received	43,293,144	1,605,781
Other revenues (Please see note-3)	9,256,737	304,451
	<u>52,549,881</u>	<u>1,910,232</u>
<u>EXPENDITURE</u>		
Management	5,853,430	212,631
Program activities	14,837,397	524,554
Monitoring	250,585	9,463
Administration	7,091,578	251,904
	<u>28,032,990</u>	<u>998,552</u>
	<u>24,516,891</u>	<u>911,680</u>
	=====	=====

MERCY CORPS INTERNATIONAL  
 CO-OPERATIVE AGREEMENT NO. 306-0211-A-00-1214-00  
 FUND ACCOUNTABILITY STATEMENT  
 FOR THE PERIOD FROM JANUARY 1, 1993 TO DECEMBER 31, 1993

	<u>CONTRIBUTION</u>	
	<u>Rupees</u>	<u>US \$ Equivalent</u>
<u>REVENUE</u>		
Grants received	35,849,523	1,282,135
<u>EXPENDITURE</u>		
Personnel	10,224,606	371,845
Travel	2,148,771	76,971
Supplies/equipment	1,314,011	47,732
Other direct costs	3,067,768	111,570
Emergency assistance	554,664	18,703
Overheads	2,831,194	102,564
	20,141,014	729,385
	<u>15,708,509</u>	<u>552,757</u>

## MERCY CORPS INTERNATIONAL

NOTES TO THE FUND ACCOUNTABILITY STATEMENTS1. Significant Accounting Policies

- (a) The Fund Accountability Statements, expressed in Pakistan Rupees, is prepared in accordance with the historical cost convention. Pakistan Rupee amounts have been translated to their US dollar equivalent at the average rates of exchange during the statement period.

The average exchange rate for the period from January 1993 to June 1993 was Rs.1 = US \$ 26.43 whereas the same for the period from July 1993 to December 1993 was Rs.1 = US \$ 27.96.

- (b) Revenues represent grants received and expenditures represent amount paid and accrued for the relevant accounting period.

2. Component unit of MCI

The Fund Accountability Statements present only the transactions of MCI as they pertain to its grant received from USAID/Pakistan and Afghanistan under the PVO Support Projects and is not intended to present fairly the receipts and expenditures of MCI as a whole.

	Rupees	US \$ Equivalent
	-----	-----
3. OTHER REVENUES		
Agriculture products	1,165,920	43,166
Backpak sprayers	787,241	28,286
Wheat/DAP	12,786,812	428,704
Interest income	303,667	10,874
Others	258,775	8,874
	-----	-----
	15,302,415	519,904

LESS: EXPENDITURE

Salaries	2,401,930	85,408
Travel	74,210	2,484
Supplies	1,487,960	56,165
Vehicle operating cost	75,864	2,771
Training	12,464	467
Office operation	1,210	45
Overheads	705,500	25,154
Transport of DAP	1,153,843	38,399
Miscellaneous	132,697	4,560
	-----	-----
	6,045,678	215,453
	-----	-----
	9,256,737	304,451
	=====	=====

10a



AUDIT OF  
MERCY CORPS INTERNATIONAL (MCI) IN PAKISTAN  
REPORT ON  
THE SYSTEM OF INTERNAL CONTROLS

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MERCY CORPS INTERNATIONAL  
PERTAINING TO ITS PVO SUPPORT PROJECTS WITH  
THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN PAKISTAN AND AFGHANISTAN

INDEPENDENT AUDITORS' REPORT ON THE SYSTEM  
OF INTERNAL CONTROLS

1. We have audited the Fund Accountability Statements of MCI pertaining to PVO Support Projects with the United States Agency for International Development, Pakistan and Afghanistan (USAID/Pakistan and Afghanistan) in respect of the period commencing from January 1, 1993 to December 31, 1993 for the following Co-operative Agreements -

306-0211-A-00-0961-00

306-0211-A-00-1214-00

2. These statements, comprising the Revenue and Expenditure Statement for each grant for the period mentioned above and the notes thereon, are set out on pages 7 to 9.
3. We conducted our audit in accordance with generally accepted auditing standards and US Government Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.
4. In planning and performing our audit of MCI, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an assurance on the internal control structure.
5. The management of MCI is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related cost of internal control structure, policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorised use or disposition and that transactions are executed in accordance with management's authorisation and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Due to the 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 currently considered adequate may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.
6. For the purpose of this report, we have classified the significant internal control structure, policies and procedures into the following categories :

MERCY CORPS INTERNATIONAL  
PERTAINING TO ITS PVO SUPPORT PROJECTS WITH  
THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN PAKISTAN AND AFGHANISTAN

INDEPENDENT AUDITORS' REPORT ON THE SYSTEM  
OF INTERNAL CONTROLS

Accounting controls :

- Cash receipts
- Cash disbursements
- Payroll

Administrative controls :

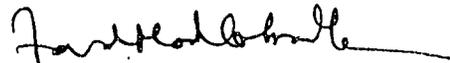
- Cost allocation and allowability
- Monitoring
- Reporting

7. For all the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures, determined whether they are effective in operation, and assessed control risk.
8. As a result of these procedures, and in accordance with the US Government Auditing Standards, we limited our reliance on the internal control structure as, due to the fact that major expenditures are incurred in Afghanistan, an adequate structure for the purpose of audit reliance was considered not to be in existence. As a consequence, we extended our substantive testing in auditing of the Fund Accountability Statements.
9. However, during the course of our audit, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that in our judgement, would adversely affect the organisation's ability to record, process, summarise and report financial data, consistent with the assertions of management in the Fund Accountability Statements.
10. Our audit revealed the reportable conditions in the following areas, which are described in detail on pages 14 to 18:
  - a) Inventories
  - b) Cash advance forms (CAF)
11. A material weakness is a condition in which the design or operation of a specific internal control structure does not reduce to a relatively low level, the risk that errors or irregularities, in amounts that would be material in relation to the Statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

MERCY CORPS INTERNATIONAL  
PERTAINING TO ITS PVO SUPPORT PROJECTS WITH  
THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN PAKISTAN AND AFGHANISTAN

INDEPENDENT AUDITORS' REPORT ON THE SYSTEM  
OF INTERNAL CONTROLS

12. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that none of the reportable conditions described above is a material weakness.
13. This report is intended solely for the use of the Agency for International Development and MCI and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the USAID Regional Inspector General for Audit, Singapore, is a matter of public record.

  
Chartered Accountants.

## MERCY CORPS INTERNATIONAL

REPORT ON THE SYSTEM OF INTERNAL CONTROLa) INVENTORIESi) Condition

MCI does not have a proper accounting procedure to facilitate identification of agricultural inventories either purchased by USAID funds or received from USAID.

Criteria

All expenditure incurred with USAID funds should be separately identifiable.

Effect

Funds received from USAID may be used to finance activities of another project which is not supported by USAID.

Cause

Lack of proper accounting procedures.

Recommendation

Management should consider use of a separate sequence of documents for recording USAID related expenditure.

## MERCY CORPS INTERNATIONAL

REPORT ON THE SYSTEM OF INTERNAL CONTROLii) Condition

Issue vouchers are not authorised by the issuing authority. The issue voucher form also does not contain any column for such authorisation.

Criteria

All transactions should be authorised by the competent authority.

Effect

Unauthorised issue of inventory items may take place.

Cause

Lack of proper and adequate control structure.

Recommendation

We recommend redesigning of the issue voucher to contain a column for signature of the issuing authority and signing of such forms by the competent authority.

## MERCY CORPS INTERNATIONAL

REPORT ON THE SYSTEM OF INTERNAL CONTROLiii) Condition

The person, responsible for issue of inventory items, does not have a list of personnel authorised to receive such items.

Criteria

A good internal control system requires issuance of inventory items to the authorised personnel only.

Effect

Inventory items may be issued to unauthorised personnel.

Cause

Absence of proper accounting procedures.

Recommendation

List of personnel authorised to receive inventory items should be made available to the employee responsible for such issues and all issues should be made to authorised personnel only.

## MERCY CORPS INTERNATIONAL

REPORT ON THE SYSTEM OF INTERNAL CONTROLb) CASH ADVANCE FORMS (CAF)i) Condition

We noted many cash advance forms which were not signed by the persons requesting for advances.

Criteria

All the persons requesting for advance should sign CAF in the space provided on the form for this purpose.

Effect

There may be disputes as to the receipt of the money by the person requesting for advance.

Cause

Lack of proper internal control.

Recommendation

We recommend that all CAFs should be duly signed by the persons requesting the advance as an authorisation of information contained in the form.

## MERCY CORPS INTERNATIONAL

REPORT ON THE SYSTEM OF INTERNAL CONTROLii) Condition

We noted some cases where advances were adjusted after a long time and there was no reason mentioned for such delay.

Criteria

All the advances should be settled within a week unless and until there is a proper justification for a delay.

Effect

MCI's funds may be used for personal purposes.

Cause

Lack of proper control structure.

Recommendation

All advances should be adjusted within the stipulated period and in case of delays, proper reasons and authorisation should be documented.



AUDIT OF  
MERCY CORPS INTERNATIONAL (MCI) PAKISTAN

REPORT ON  
COMPLIANCE WITH AGREEMENT  
TERMS, APPLICABLE LAWS AND REGULATIONS

**FORD, RHODES, ROBSON, MORROW**

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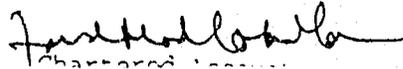
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BRANCHES AT LAHORE AND ISLAMABAD

MERCY CORPS INTERNATIONAL  
PERTAINING TO ITS PVO SUPPORT PROJECTS WITH  
THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN PAKISTAN AND AFGHANISTAN

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

1. We have audited the Fund Accountability Statements of MCI pertaining to PVO Support Projects with the United States Agency for International Development, Pakistan and Afghanistan (USAID/Pakistan and Afghanistan), in respect of the period commencing from January 1, 1993 to December 31, 1993 for the following Co-operative Agreements -  
  
306-0211-A-00-0961-00  
306-0211-A-00-1214-00
2. We conducted our audit in accordance with generally accepted auditing standards and US Government Auditing Standard. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.
3. Compliance with laws, regulations, contracts, grants, provisions or binding policies and procedures applicable to MCI is the responsibility of MCI's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of MCI's compliance with some of those provisions. However, our objective was not to provide an opinion on compliance with such provisions.
4. Material instances of non-compliance are violations of laws, regulations, contracts and grant provisions, or binding policies and procedures that cause us to conclude that the aggregation of misstatements resulting from those violations is material to the Fund Accountability Statements. The results of our testing of transactions and records selected disclosed some instances of non-compliance, the effects of which have not been corrected in the Fund Accountability Statements, and they are set out in detail on pages 20 to 21 and Appendix A.
5. We considered these instances of non-compliance in forming our opinion on whether MCI's Fund Accountability Statements are presented fairly, in all material respects, are in conformity with the basis of accounting described in note (b) to the Statements and the same is not considered to have affected our report on those Statements.
6. Except as described in paragraph 5 above, the results of our test of compliance indicate that with respect to the items tested, MCI complied, in all material respects, with the provisions referred to above. With respect to items not tested, nothing came to our attention that caused us to believe that MCI had not complied, in all material respects, with those provisions.
7. This report is intended solely for the use of the Agency for International Development and MCI and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which upon acceptance by the USAID Regional Inspector General for Audit, Singapore, is a matter of public record.

  
Chartered Accountant

MERCY CORPS INTERNATIONAL  
 PERTAINING TO ITS PVO SUPPORT PROJECTS WITH  
 THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
 IN PAKISTAN AND AFGHANISTAN

SCHEDULE OF FINDINGS OF NON-COMPLIANCE

1. INADEQUATE MAINTENANCE OF SUFFICIENT AND PROPER ACCOUNTING RECORDS

Condition

In respect of Co-operative Agreement No.306-0211-A-00-0961-00 and No.306-0211-A-00-1214-00, MCI has not maintained sufficient and appropriate accounting records to generate complete statements of receipts and expenditures for all costs incurred as its contributions to respective projects. Additionally, they have also not been able to support the allocability, allowability and reasonableness of a number of those cost items claimed as expenditure related to those grants.

This finding includes the following specific deficiencies :

- USIAD/Pakistan and Afghanistan reimbursed vouchers were intermingled with those for costs financed by Non-USAID contributions;
- Source documentation for certain expense items could not be located; and
- Inadequate details on supporting documentation.

Criteria

Co-operative agreements require the grantee to maintain books, records, documents and other necessary evidence to sufficiently substantiate charges to grants. Moreover, the records must disclose that portion of project costs that is funded from other sources.

The above criterion also constitutes requirements of sound accounting practice.

Effect

Sufficient and appropriate accounting records have not been maintained to generate and support the Fund Accountability Statements for PVO Support Projects.

As a result, we are unable to determine the reasonableness, allocability and allowability of Rs.5,540,195 (US \$ 200,235) in recorded expenditure. (Refer Appendix A).

Cause

MCI's accounting system was not adequate enough to ensure full accountability for a significant portion of expenditure incurred under the Co-financing Grants, primarily due to the fact that most of the expenditures are incurred in Afghanistan.

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SCHEDULE OF FINDINGS OF NON-COMPLIANCE

Recommendation

MCI should take immediate steps to ensure that it maintains sufficient and proper accounting records to substantiate all receipts and payments of funds received under the grants and should conduct regular reviews of these systems and their ability to comply with grant provisions.

In addition, MCI should also review those questioned costs that have resulted from this finding as noted in Appendix A and resolve them with USAID/Pakistan and Afghanistan.

MERCY CORPS INTERNATIONAL  
USAID/PAKISTAN AND AFGHANISTAN  
QUESTIONED COSTS AS TO REASONABLENESS,  
ALLOCABILITY ALLOWABILITY, AND  
NON-COMPLIANCE ISSUES

<u>Condition</u>	<u>Basis of Questionability</u>	<u>Cooperative Agreement No.</u>	<u>Amount</u>	<u>Equivalent</u>
			Rs.	US \$
Unsupported -				
Inadequate maintenance of sufficient and proper accounting records.	Reasonableness, allowability and allocability can not be determined.	306-0211-A-00-0961-00	2,289,889	82,571
		306-0211-A-00-1214-00	3,017,419	109,471
			5,307,308	192,042
Ineligible -				
Expenditure not related with the projects.	Allowability breach of agreement.	306-0211-A-00-1214-00	232,887	8,193
			<u>5,540,195</u>	<u>200,235</u>



APPENDICES

**FORD, RHODES, ROBSON, MORROW**  
CHARTERED ACCOUNTANTS,  
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PHONE : 2415582-86  
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BRANCHES AT LAHORE AND ISLAMABAD

APPENDIX 'A.1'

MERCY CORPS INTERNATIONAL  
 BREAKDOWN OF USAID/PAKISTAN AND AFGHANISTAN  
QUESTIONED COSTS

Voucher No.	Month	Budget Line Item	Description	Amount
				Rs.
70/J-0361	May	Travel	No supporting documentation.	94,010
10/J-0014	June	Travel	No voucher & supporting docu- mentation.	131,237
70/J-0011	July	Travel	No voucher & supporting docu- mentation.	138,376
Entire budget line item questioned		Salaries expatriates	No procedures for maintaining attendance records	1,926,266
				----- 2,289,889 =====

APPENDIX 'A.2'

MERCY CORPS INTERNATIONAL  
 BREAKDOWN OF USAID/PAKISTAN AND AFGHANISTAN  
QUESTIONED COSTS

<u>Voucher No.</u>	<u>Month</u>	<u>Budget Line Item</u>	<u>Description</u>	<u>Amount</u> Rs.
70/J-0361	May	Travel	No supporting documentation.	94,010
Entire expenses questioned		Salaries expatriates	No procedures for maintaining attendance records.	2,457,422
70/J-0361	May	Travel	No supporting documentation.	188,020
70/J-0011	July	Travel	No supporting documentation.	136,682
21/J-2810	October	Travel	No supporting documentation.	730
23/J-0004	April	Occupancy/ utilities	No supporting documentation	70,982
60/J-0018	December	Occupancy/ utilities	No supporting documentation	69,573
				<u>3,017,419</u>

APPENDIX 'A.3'

MERCY CORPS INTERNATIONAL  
BREAKDOWN OF USAID/PAKISTAN AND AFGHANISTAN  
QUESTIONED COSTS

<u>Voucher No.</u>	<u>Month</u>	<u>Budget Line Item</u>	<u>Description</u>	<u>Amount</u> Rs.
25/J-0001	January	Supplies	Items not related to the project.	118,700
21/J-0305/V-8	May	Supplies	Items not related to the project.	16,910
21/J-0305/V-9	May	Supplies	Items not related to the project.	17,064
21/J-0305/V-5	May	Supplies	Items not related to the project.	720
21/J-0209/V-3	September	Supplies	Items not related to the project.	2,600
21/J-0509/V-2	September	Supplies	Items not related to the project.	800
70/J-0469	July	Travel	Items not related to the project.	5,280
Entire period of phase-out plan		Salaries local staff	Staff members are not included in phase-out plan.	44,770
23/J-0014	November	Travel	Travel to Herat is not related to the project.	6,272
60/J-0019	December	Salaries expatriates	Increase in country director's salary is not approved by USAID.	5,413
21/J-3012/V-1	December	Travel	Joseph Ohikhuara's travel to Lahore is not related to the project.	3,910
70/J-0348	December	Occupancy/ utilities	Not related to the project.	1,051
21/J-3012/V-4	December	Travel	Dr.Imam's travel to Herat was not approved by USAID.	5,487
21/J-3012/V-1	December	Travel	Disallowed	3,910
				----- 232,887 =====

MERCY CORPS INTERNATIONAL  
 BREAKDOWN OF UNSUPPORTED EXPENSES INCURRED  
INSIDE AFGHANISTAN

Voucher No.	Month	Budget Line Item	Description	Amount
				Rs.
Entire budget line item questioned		Salaries inside	No procedure for maintaining attendance records for staff inside Afghanistan.	3,144,895
Entire budget line item questioned		Salaries inside	No procedure for maintaining attendance records for staff inside Afghanistan.	4,634,668
23/J-0006	April	Travel	No supporting documentation.	238,691
23/J-0008	April	Vehicle operating expense	No supporting documentation.	31,477
23/J-0005	April	Vehicle operating expense	No supporting documentation.	48,965
23/J-0003	April	Vehicle operating expense	No supporting documentation.	38,345
23/J-0012	October	Vehicle operating expense	No supporting documentation.	25,191
23/J-0008	November	Occupancy/ utilities	No supporting documentation.	162,336
				<u>8,324,568</u> =====



should be noted, that if the expense was directly project related, the expense was not allocated between Ag. and Medical but charged fully to one or the other. In this particular instance, the amount was related to administration of both grants. Therefore, it was split 50/50 and charged to both the Ag. and Medical grants. For this reason Rs. 94,010 appears twice in appendix A.2. The first time it appears as the first voucher number 70/J-0361 and the second time on page 25 at the top of appendix A.1 This amount doubled equals Rs. 188,020 also attributed to voucher 70/J-0361. This final actual figure of Rs. 188,020 is fully documented. These documents are available for review and audit. We should note at this juncture, that this form of administrative costs allocation was carried out at the end of every month through out both grants.

The next item is regarding salaries for expatriates: supporting documentation exists for 1993 expatriates' salaries in the following forms:

1- Time sheets for all expatriate employees of MCI supported by USAID are available for review and audit at the MCI/Quetta office.

2- The receipt of salary by the expatriate employee is supported by documentation which exists in the MCI Portland, Oregon office wherein the MCI expatriate employee approves of direct transfer of salary to their personal bank accounts in the United States. This transfer is confirmed on a monthly basis by the expatriate employee through the receipt of a bank transfer stub from the payroll company with which MCI contracts to generate payroll and to transfer the salaries.

Voucher 70/J-0011: Documentation for these expenses in the form of vehicle logbooks exists and is available for review by the auditors.

Voucher 21/J-2810: There is no supporting documentation for this travel expense.

Voucher 23/J-0004: Documentation for this expense Rs. 70,982 is available for review by the auditors.

Voucher 60/J-0018: This expense was made by the MCI home office in Portland, Oregon. They were requested to send a copy of the voucher to Lord, Rhodes, Robson, and Morrow and have done so. The MCI/Quetta office also has another copy of this expense documentation for review by the auditors. This expense was incurred for insurance of property as required by the Cooperative Agreements.

Voucher 10/J-0014: Documentation exists for this travel expenditure of Rs. 131,237 for home travel for Brian Walker and family. These documents are available for review by the auditors.

Voucher 70/J-0011: Documentation for these expenses totaling Rs. 138,376 for transport or travel exists at the MCI office in Quetta for review by auditors.

Expatriate salaries: This expenditure has been addressed above

### Appendix A.3

Voucher 25/J-0001: First of all the voucher was actually filed for July expenses rather than January for the amount Rs. 118,700, these items were purchased in accordance to the budget of the USAID medical grant, identical purchases have been made both prior and after this purchase all of which were in accordance to the Medical C.A. Therefore, we believe this is an eligible expenditure and in accordance to the Medical Cooperative Agreement. Please see the Cooperative Agreement approved budget for 1993-94 under the Orthopedic Supplies line item in which US\$ 16,000 is provided for purchase of supplies via OHI.

Voucher 21/J-0305/V-8: Rs. 16,910. This expense is for the provision of a special lunch for the fostering of good relations between Mercy Corps International and government authorities in Pakistan. This dinner was aimed at acquainting Pakistani officials with the work of MCI in Afghanistan. This activity is necessary when we consider the tenuous nature of the position of NGOs working in Pakistan for the benefit of Afghans. Therefore, we believe that this is an expenditure which is both related and very important for the carrying out of both the Agriculture and the Medical Cooperative agreements in Afghanistan.

21/J-0305/V-9: Rs. 17,064. This expense is for an MCI staff lunch which is a normal part of running a project such as ours in this part of the world. Events such as these are necessary from time to time to foster staff morale and to provide them with special information about either their performance or about upcoming events. Therefore, we believe that this is an expense which is both allowable and appropriate in the carrying out of these grants.

Voucher 21/J-0305/V-5: Rs. 720. These items were for the provision of a periodic expatriate staff lunch which is included in the benefits package for expatriate staff under the Cooperative Agreement. Therefore, we consider this to be a valid and appropriate expense under the cooperative agreements. It should be mentioned that the original voucher is for the amount of Rs. 630 rather than Rs. 720.

Voucher 21/J-0209/V-3: Rs. 2,600. We agree with the findings of the audit and will reimburse USAID for this expense.

Voucher 21/J-0509/V-2: Rs. 800. These expenses are for notional items related to various administrative activities of the two C.A.S. Therefore, we believe they are appropriate and valid expenditures in accordance with the Cooperative Agreements.

Voucher 70/J-0469: Rs. 5,280. We agree that this expense is not related to the Cooperative Agreements and have already reimbursed USAID for this amount.

Regarding salaries for local staff: Rs. 44,770. Funding for the positions in question was approved under the MCI/USAID phase out plans. During the time of Phase Out Plan revisions, the staff members changed. However it should be emphasized that there was not

an increase in staff number. The names changed but the positions did not. Nor did the total number of staff or the number of staff performing a certain function. Thus this expense is valid and appropriate and in accordance with the Phase Out Plan given that the staff position takes precedence over the individual filling that position within the Phase Out Plan.

Voucher 23/J-0014: Rs. 6,272. MCI agrees that this expenditure was not related to the project and has reimbursed USAID for this expense.

Voucher 60/J-0019: Rs. 5,413. MCI agrees with this disallowance and has already reimbursed USAID.

Voucher 21/J-3012/V-1: Rs. 3,910. MCI agrees with this disallowance and will reimburse. Please note below that the same voucher is mentioned at the bottom of the column and is thus herein addressed.

Voucher 70/J-0348: Rs. 1,051. We have documentation for this voucher but are unable to discern which expenditure is referred in Appendix A.3. We request clarification for this questioned expenses.

Voucher 21/J-3012/V-4: Rs. 5,487. We agree with this disallowance and have accordingly reimbursed USAID for this expense.

## Appendix B

These expenses all have occurred inside Afghanistan. This fact is discussed in point 7 of the Fund Accountability Statement submitted by Ford, Rhodes, Robson, and Morrow. None the less, we would like to address each expenditure as we can provide supporting documentation here<sup>at</sup> MCI/Quetta.

Point No. 1. There was in fact a procedure for monitoring attendance records for staff inside Afghanistan. These documents are available at MCI/Quetta.

Voucher 23/J-0006: Documentation for travel expenses totaling Rs. 238,691 incurred inside Afghanistan are available in Quetta.

Voucher 23/J-0008: Documentation for vehicle operating expenses of Rs. 31,477 are available in Quetta.

Voucher 23/J-0005: Documentation for vehicle operating expenses of Rs. 48,965 are available for review in Quetta.

Voucher 23/J-0003: Documentation for vehicle expenses of Rs. 38,345 are available for review in Quetta.

FROM: MCI QUETTA PAKISTAN

TO:

+92 21 2419592

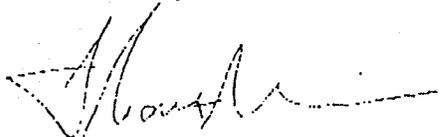
DEC 11. 1994 12:57PM #101 P.05

Voucher 23/J-0012: Vehicle operating expenses of Rs. 23,191 incurred in Afghanistan documentation is available.

Voucher 23/J-0008: Occupancy and utilities expenses of Rs. 162,336: documentation for these expenses has been misplaced.

We look forward to resolving these questions as quickly as possible. Please let us know if you require further clarification.

Kind Regards,



Tom Brown  
Country Director



Mohamad Reza Akbari  
Finance Manager

cc: Carlton Bennett: Contracts Officer, USAID Pak.  
Dale Jones, PDX, LFO, USAID file

TJB/hro