PD-AAR-878
ISN. 41514

NON-FEDERAL AUDIT OF

LIBERIA'S PRIMARY HEALTH CARE PROJECT
(669-0165)

FINANCIAL REVIEW
SIX MONTHS ENDED DECEMBER 31, 1984

Performed by MANAGEMENT CONTROL SYSTEMS of

Monrovia, Liberia

Audit Report No. 7-669-86-01-N
October 7, 1985

UNITED STATES GOVERNMENT

memorandum

DATE: October 7, 1985

REPLY TO ATTN OF: John P. Competello, RIG/A/WA

SUBJECT: Audit Report 7-669-86-01-N, "Financial Review, Primary Health Care Project -- 6 Months Ended December 31, 1984", performed by Management Control Systems of Monrovia, Liberia.

TO: Mary Kilgour, Director USAID/Liberia

Attached is a copy of Audit Report 7-669-86-01-N entitled "Financial Review, Primary Health Care Project -- 6 Months Ended December 31, 1984.' This report dated February 22, 1985 was prepared by Management Control Systems -- a Certified Public Accounting Firm located in Monrovia. I have designated five of the seven report recommendations as requiring your attention and have included them in the Office of the Inspector General's (OIG) audit recommendation follow-up system.

Under Section 4 of the Inspector General Act of 1978 (PL 95-452) the AID Office of the Inspector General is responsible for compliance with standards established by the Comptroller General of the United States in performing audits of federal programs and activities and for assuring that any work performed by non-federal auditors (NFA) complies with those standards. OMB Circular A-50(revised) also requires the OIG to exercise oversight of the NFA operations.

In August 1984, the OIG and SER/CM executed AID worldwide indefinite quantity contracts with three U.S. accounting firms for NFA services. In effect, direct contracts between AID entities and other outside audit firms were not allowed for audits of a financial and compliance nature. The guideline for performing NFA's are summarized in STATE 263872 dated September 1984.

Our office did not perform its normal monitoring responsibilities of the work performed by Management Control Systems under contract with USAID/Liberia because (1) the contract overlapped the effective date of the OIG indefinite quantity contracts, and (2) we learned of the contract only after the audit field work had been completed.

The objectives of the audit were to (1) verify the use of USAID and Government of Liberia (GOL) project funds in accordance with the project grant agreement and other relevant AID documentation, (2) review controls over expendable and non-expendable project resources, and (3) review the project's organizational structure and management effectiveness. The audit covered the six month period ending December 31, 1984 and

included reviews of pertinent records and discussions with project and technical assistance personnel which the auditors deemed appropriate.

Management Control Systems found that adequate project accounting records were not established and controls over both expendable and non-expendable property were weak or non-existent. In addition inadequate Government of Liberia funding was a major constraint to project implementation. For example, at the completion of the audit field work on February 22, 1985, the Government of Liberia had provided to the project only 12.5 percent of the FY 1984 budget and none of the 1985 budget.

The audit report contained seven recommendations. Of these, five recommendations focus on significant financial and compliance matters which I believe warrant your attention. They will be included in the OIG's audit recommendation follow-up system. In several instances some minor editorial modifications to the following five recommendations were made to (1) more clearly identify the implementing office, and (2) facilitate recommendation closure through the use of certain action verbs.

Recommendation No. 1

USAID/Liberia in conjunction with the Government of Liberia establish a realistic timetable for the payment of the host government's contribution to the project for the amounts specified in the project grant agreement. (Page 11)

Recommendation No. 2

USAID/Liberia require the Government of Liberia (a) establish and maintain adequate project accounting records which include a general ledger, voucher register, check register, petty cash system and payroll register; and (b) provide monthly bank reconciliations for each USAID funded project account. (Page 28)

Recommendation No. 3

USAID/Liberia require the Government of Liberia to (a) establish adequate project property and equipment records, and (b) conduct an annual physical inventory of all properties and equipment. (Page 31)

Recommendation No. 4

USAID/Liberia enforce its Mission Property Insurance Policy which requires the Government of Liberia purchase third-party insurance on project-funded vehicles as required by Liberian law. (Page 31)

Recommendation No. 5

USAID/Liberia require the Government of Liberia collect salary advances and employee loans through salary deductions from project personnel. (Page 32)

Please advise us within thirty days of the action taken or planned to be taken to close the recommendations.

APPENDIX 1

LIST OF REPORT RECIPIENTS

	No. of Copies
USAID/Monrovia	5
Assistant Administrator - Bureau for Africa	5
Assistant to the Administrator for Management	1
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MANAGEMENT CONTROL SYSTEMS

CERTIFIED PUBLIC ACCOUNTANTS — MANAGEMENT CONSULTANTS
SINKOR SHOPPING CENTER - P. O. BOX 3206, MONROVIA - LIBERIA . TEL. 261000

REPORT

Financial Review
Primary Health Care Project
6 Months Ended December 31, 1984

Submitted To: USAID/Liberia
P. O. Box 1445
Monrovia, Liberia

February 22, 1985

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Director, USAID
USAID/Liberia

On February 22, 1985, we concluded a financial review of the Primary Health Care Project for the six months ended December 31, 1984.

The general objectives of this engagement, which are more specifically outlined in our initial review outline submitted to USAID on December 18, 1984, and approved on February 7, 1984, were as follows:

- Verification of USAID and G.O.L. project funds and the proper applications thereof.

- Review controls over expendable and non-expendable project resources.

- Review of organizational structure and management effectiveness.

Our review included all project financial activities for both USAID and G.O.L. contributions except for the activities included under technical assistance contracts. Financial data consulted in the course of our analyses were reviewed by us and our review report, which includes the nature of assurances expressed, is shown as Exhibit I.

The financial review involved interviews with Project management, staff and technical assistants. We examined and tested selected documents, files, account balances, reports, procedures and policies as we considered appropriate. After analyzing and testing the data, we summarized our findings and recommendations. We then discussed our findings and recommendations with management and staff prior to submitting this written report.

In considering our findings and recommendations, we must be reminded that our review focused on weaknesses and areas for improvement. The many strengths of an organization are generally not covered and rarely form the basis of commissioning a financial review. Organizational strengths are discussed only where they mitigate significant weaknesses or to insure that the report is fair and not misleading.

All significant findings and recommendations, are included in this report for your consideration. The findings in this report represent, in our judgement, areas for which technical assistance has already been contracted. Our findings represent summarizations of the more significant problem or potential problem areas and should form the basis of your understanding of the nature and extent of the systems development and implementation activities required under the technical assistance contract for accounting services.

Management Control Systems

February 22, 1985

ENGAGEMENT SUMMARY

ORGANIZATION REVIEWED:	Primary Health Care Project.
TYPE OF ORGANIZATION:	Nonprofit, bilaterally financed health care delivery project.
BACKGROUND OF FINANCIAL REVIEW:	The review is required as part of a three (3) year accounting services technical assistance contract.
PRINCIPAL RECIPIENTS OF REVIEW REPORT:	USAID/Liberia and the Ministry of Health and Social Welfare.
PURPOSE:	To ascertain whether the Project has established financial procedures to account for resources provided the Project and whether the application of those resources are in accordance with the related Project implementation documents.
OBJECTIVE:	To review accounting and administrative controls over Project resources for adequacy. Verify G.O.L. and USAID/Liberia inputs and review other financial related activities of the

Project management and the various policy making committees.

SCOPE: Financial related activities of the Project, excluding the cost incurred by the MEDEX group, through December 31, 1984.

GENERAL PROCEDURES/ APPROACH TO CONDUCTING ENGAGEMENT: Implementing documents were reviewed. Selected financial data and information was tested. Key Project personnel, including technical assistants, were interviewed. Documents supporting transactions were examined. Accounting and administrative controls were tested.

MEASUREMENT CRITERIA: Conducting of the Project's financial activities in a manner consistent with the grant agreement, Project paper and other implementing documents.

SPECIFIC FINDINGS: <u>CONTROLS OVER PROJECT RESOURCES</u>

Proper books and records for the Project were not established. It appears to be the result of Project management not taking advantage of support resource available within the MHLSW. Controls

over project resources, both expendable and non-expendable properties are weak or non existent.

REVIEW OF USAID PROJECT FUNDS

Less than 10% of the budget allocations for years 1 and 2 have been disbursed due to the slow pace of project start-up. Expenditures appear to be in line with Project design and are being utilized properly.

VERIFICATION OF G.O.L. FUNDS PROVIDED THROUGH THE DEVELOPMENT BUDGET

The lack of sufficient G.O.L. funding is a major impediment to proper implementation of the Project. Presently, none of the G.O.L. FY 85 budget has been received and only 12.5% of the FY 84 budget was received. Given the Project's current spending patterns, activities funded through the G.O.L. may come to a halt if additional funds are not received by June 30, 1985.

ORGANIZATIONAL STRUCTURE AND EFFECTIVENESS OF PROJECT MANAGEMENT

The number of committees included in

Project design should be reviewed as Project implementation progress, to guard against centralizing the decision making process. Project management should identify support relationships within the MH&SW, that would help to increase management effectiveness.

COMPLIANCE WITH COMMITTEE DECISION

Generally speaking, decisions and actions taken by committees were complied with by Project personnel.

SPECIFIC RECOMMENDATIONS:

Recommendations are shown below and referenced to page numbers where they are discussed. We recommend that:

1) The Project office, the MH&SW and representatives of USAID pool resources to insure a more timely receipt of G.O.L. subventions (11).
2) Permanent books and records be established and maintained for the Project that include a general ledger, voucher register, check register, petty cash system and a payroll register. That bank

balances form part of the monthly reporting format (28).

3) Adequate property records be established for all Project property and equipment and that a physical inventory be taken on an annual basis (31).

4) Project vehicles carry property insurance of at least the minimum levels prescribed by USAID policy (31).

5) Employee loans in the form of salary advances, outright loans to be deducted from salaries and other forms of loans be prohibited (32).

6) As the implementation of the Project progresses, the number and activities of the various committees be reviewed to insure that the decision making process is done in a manner consistent with the principles of decentralization (37).

7) Project management make a conscious effort to identify and cultivate

areas of support within the MH&SW that would increase effectiveness, with particular emphasis on financial management support (38).

SCOPE OF WORK

Our scope of work is based on the revised outline of financial review procedures submitted to USAID on December 18, 1984 and includes the following:

i. Review of USAID project funds, excluding costs covered under the Technical Assistance Contract, to insure that all inputs have been utilized as outlined in the grant agreement and amendments thereto, project paper and other relevant AID documentation.

ii. Verification of G.O.L. funds provided through the development budget.

iii. Review the effectiveness of project financial management, including organizational structure.

iv. Review of internal controls over receipts, disbursements, consumeable stocks and bank balances.

v. Review controls over capital properties and compliance with applicable AID regulations thereon.

vi. Review compliance with actions taken at committee meetings that may effect the financial operations.

VERIFICATION OF G.O.L. FUNDS PROVIDED THROUGH THE DEVELOPMENT BUDGET

The Grant Agreement provides that the Government of Liberia will provide $21,137,000 to the project over a five year period representing cash contributions, personnel services, construction and so on. An amount of $3.5 million of the G.O.L. contribution will be made available through US Government PL-480 counterpart funds and is expected to support the G.O.L. development budget for the Project as shown in Table 1.

TABLE I

PL-480 COUNTERPART FUNDS

Year	AMOUNT
1	$400,000
2	800,000
3	800,000
4	750,000
5	750,000
	$3,500,000

The Grant Agreement was signed on August 29, 1983 and project year 1 ended August 28, 1984. The first Project contribution from the G.O.L. of $50,000 was received in September, 1984. As of the completion of our field work, February 22, 1985, there has been no other G.O.L. input. We were told by the Controller's Office at the

Ministry of Health and Social Welfare that the $50,000 contribution was part of the G.O.L. FY 84 budget allocation. As shown in Table 1, the G.O.L. contribution for year 1 and 2 was expected to be $400,000 and $800,000 respectively, whereas the FY 85 budget for year 2 shows an allocation of the only $500,000. This matter was discussed with the Controller at the Ministry of Health and Social Welfare, who indicated that he had not been thoroughly briefed on the day-to-day activities of the Project. It appears as though there had been a budget allocation for FY 85 in the amount of $400,000 that was carried forward to form the allocation for FY 84. Separate vouchers were prepared for the entire $400,000 (one at $141,000 and one at $259,000) and sent through the proper channels to the Ministry of Finance. The Ministry of Finance issued a check for $100,000 to the Project FY 84 but the check was canceled and reissued for $50,000 was received and deposited in the latter part of September, 1984, and represents the only G.O.L. disbursement to the Project.

We reviewed the role of the Controller's Office with respect to the follow-up of Project vouchers with the Ministry of Finance and it was indicated that it was the Project Management's responsibility to follow-up with the Ministry of Finance for the receipt of Project Funds. We recommend that the Project office, the Ministry of Health and Social Welfare and representatives of USAID pool resources to insure a more timely receipt of G.O.L. subventions to the Project.

Our verification exercise on the use of funds received included the test of transactions, review of supporting documentation and the preparation of bank reconciliations, among other things. Details of our review procedures are shown in Sections III, IV, and V, of our Revised Outline Of The Initial Financial Review, which was submitted to USAID on December 18, 1984.

Our review covered the Projects' activities through December 31, 1984 and, as is customary, any significant activity occurring up through the completion of our field work. Of the $50,000 received by the Project in the latter part of September, 1984, $28,854 was unspent at December 31, 1984. Project personnel seem to have sensed difficulty in obtaining additional G.O.L. contributions and established spending priorities. The priority spending budget for the $50,000 showed allocations of 50% and 10% for Office Purchase and Renovation and Personnel Costs, respectively. A payment of $15,000 was made for the purchase of a new office on October 3, 1984 and as of December 31, 1984, only $500 had been spent on office renovation. The rather slow pace of the renovation of the building was due in part to the rainy season, difficulty in locating a reliable contractor and a change in Project Management. As of January 31, 1985, $7,164 had been spent on the renovation work and the building is expected to be completed by the middle of March, 1985.

Personnel costs are comprised of salaries for the four project staff people, consisting of a Project Manager, Administrative Assistant, Secretary and Messenger (The Project Manager only received salary support of $72 per month). The monthly payroll is approximately $1,000 per month and given the current spending patterns, it appears as though the project will be unable to retain the local staff after the end of June, 1985 unless additional G.O.L. subvention is forthcoming. Project personnel are aware of this situation and have initiated discussions with G.O.L. authorities at all levels in attempts to stave off the cessation of local funded Project activities.

Table II shows a summarized comparison of actual expenditures and priority spending allocations. A comparison of budgeted (approved G.O.L. budget for the project) versus actual, is considered to be meaningless, since only 10% of the budget allocation has been received and 50% of the budget year has elapsed. Exhibit I, Project Financial Statements, includes the G.O.L. FY 85 budget allocation of $500,000.

TABLE II
COMPARISON OF ACTUAL EXPENDITURES AND
SPENDING PRIORITY ALLOCATIONS THROUGH DECEMBER 31 1984

CATEGORY	ALLOCATION	ACTUAL	ALLOCATION REMAINING
Personnel	$ 9,764	3,958	5,806
Office Procurement and Renovation	25,000	15,000	10,000
Contingency and Unspecified	8,386	-	8,386
Oil, Gas and Local Travel	4,500	1,146	3,354
Other specified allocations	2,350	1,177	1,173
Totals	$50,000	21,281	28,719

Table II shows that remaining allocations of the $50,000 G.O.L. contribution is $28,719. Our analysis of activity subsequent to December 31, 1984 show remaining allocations at January 31, 1985, amount to $20,972.

Exhibit I, shown on the next page, provides in a more detailed manner, the resources available to the Project through December 31, 1984, how those resources were spent and available resources at December 31, 1984.

EXHIBIT I

INITIAL REVIEW OF THE FINANCIAL STATEMENTS OF THE PRIMARY HEALTHCARE PROJECT

MANAGEMENT CONTROL SYSTEMS

CERTIFIED PUBLIC ACCOUNTANTS

EXHIBIT I

MANAGEMENT CONTROL SYSTEMS

CERTIFIED PUBLIC ACCOUNTANTS

Director
USAID/Liberia

We have reviewed the accompanying statement of financial position for the G.O.L. development budget contribution to the Primary Healthcare Project, for the six months ended December 31, 1984 and the related statements of revenues, expenditures and fund balance for the period then ended, in accordance with generally acceptable review standards. All information included in these financial statements is the representation of Project Management

A review consists principally of inquiries of Project personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion. Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Management Control Systems

February 22, 1985

THE PRIMARY HEALTHCARE PROJECT
STATEMENT OF FINANCIAL POSITION
SIX MONTHS ENDED DECEMBER 31, 1984

	1984
ASSETS	
Cash In Bank	$ 28,853
Petty Cash	112
Contract Receivables(2)	850,000
TOTAL ASSETS	$878,965
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Income Taxes Withheld	$ 246
Total Liabilities	246
FUND BALANCE	
Balance July 1, 1984	$400,000
Excess Revenues Over Expenditures July - December 1984	478,719
Total Fund Balance (3)	878,719
Total Liabilities & Fund Balance	$878,965

SEE NOTES TO THE FINANCIAL STATEMENTS AND ACCOUNTANTS REVIEW REPORT

THE PRIMARY HEALTHCARE PROJECT
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCE
SIX MONTHS ENDED DECEMBER 31, 1984

REVENUES	1984
Government of Liberia[1]	$500,000
Total Revenues	500,000
EXPENDITURES	
Salaries & Wages	3,958
Purchase of Office Facilities	15,000
Consultancy	150
Postage	34
Office Repairs & Renovation	416
Local Travel	1,146
Other Miscellaneous	153
Household Supplies	39
Stationery Supplies	160
Office Equipment	225
Total Expenditures	21,281
Excess Revenues (Expenditures)[1]	$478,719

SEE NOTES TO THE FINANCIAL STATEMENTS AND ACCOUNTANTS REVIEW REPORT

NOTES TO FINANCIAL STATEMENTS

1) SIGNIFICANT ACCOUNTING POLICIES

The Primary Healthcare Project is a 5 year, $36 million Project, designed to increase the accessibility of health care to the rural inhabitants of Liberia. The Project is jointly financed by the Government of Liberia and the US Agency For International Development. A complete set of books and records have not been designed and implemented for the Project. The activity reported, however, is in accordance with acceptable standards of reporting for governmental and other not-for-profit entities.

Accordingly, the Project's budget is recorded in the accounts, reflecting the contractual nature of pledged contributions. Contributions not received during the period will be reviewed as to collectibility and relieved from the Fund Balance if collectibility appears unlikely.

As a nonprofit entity, pledged contribution revenues are recorded and charged against the resulting receivables when contributions are received. The difference between pledged contributions and other revenues and actual expenses is termed Excess Revenues (Expenditures). Excess Revenues (Expenditures)will differ from the net of actual revenues received by the amount of pledged contribution receivables.

SEE ACCOUNTANTS REVIEW REPORT

Depreciation of property and equipment is not considered in the operational costs of the project because all expenditures for commodities, property and equipment are expensed currently. Unconsumed commodities and the remaining useful life of property and equipment are administrative concerns and are not reflected in the financial reports.

2) Contract receivables represent amounts pledged to the PHC Project by the Government of Liberia that have not been received. The Project received $50,000 during the current year of amounts pledged during the prior year. Contract receivables at December 31, 1984, is made up of the following pledged contributions:

FY	84	$350,000
FY	85	500,000
		$850,000

The collectibility of the pledge will be evaluated at fiscal year end and relieved from the accounts if collectibility appears unlikely.

3) The Fund Balance represents resources available to carry out Project activities. The Fund Balance of $878,719, at December 31, 1984, includes a receivable for $850,000, from the Government of Liberia. The receivable represents

SEE ACCOUNTANTS REVIEW REPORT

$350,000 and $500,000 of the G.O.L. pledges to the Project for FY 84 and FY 85 respectively. Any evaluation of the continued existence of the Project, as designed, must take into consideration the collectibility of these G.O.L. pledges.

SEE ACCOUNTANTS REVIEW REPORT

VERIFICATION OF USAID PROJECT FUNDS

The Grant Agreement provides that USAID will contribute $15 million to The Primary Healthcare Project, excluding amounts provided under the PL-480 program. The contribution category by year and amount is shown in Table III.

Table III
EXPENDITURE OF USAID GRANT FUNDS BY YEAR ($000)*

CATEGORY	PROJECT YEAR					
	1	2	3	4	5	Total
Technical Assistance	561	1,205	1,161	949	405	4,281
Training	651	641	274	240	110	1,916
Commodities	1,748	11	880	-	-	2,639
Construction	802	250	-	-	-	1,052
Other Costs	460	430	568	408	363	2,229
Inflation	169	313	614	495	364	1,955
Contingency	328	193	219	121	67	928
TOTALS	4,719	3,043	3,716	2,213	1,309	15,000

*Information taken from the approved Project Paper, Figure III-1: Projected Expenditure of Aid Grant Funds By Project Year ($000)

Cumulative accrued expenditures on the Project at December 31, 1984 amounts to $487,973, excluding Technical Assistance included under the MEDEX Contract and Accounting Services which are not included in our scope. Approximately 77% of total accrued expenditures, $374,874 relates to commodities such as vehicles, office furniture, copy machine and residential appliances and furniture. The remaining 23%, $113,099, relates to the other costs category for items such as lease payments for Technical Assistants (TA's), Project gasoline, local support costs for TA's, etc. There have been no disbursements or accrued costs for construction or training, although one workshop has been concluded by the MEDEX group and we are told that reimbursement is pending. Practically all USAID project disbursements have been based on direct USAID/third party transactions.

We examined the Miscellaneous Obligating Documents (MOD's) filed in the USAID Controller's Office, to ascertain the nature of the costs incurred by and on behalf of the Project and found adequate documentation supporting the disbursements. The procurement and disbursements practices of the USAID/Liberia are outside the scope of our review. We were, however, able to verify at the Project site, the existence and use of a substantial portion of the commodities purchased. We did not, however, review the propriety of lease costs, residential furniture and appliances and local support costs for TA's.

TABLE IV
COMPARISON OF BUDGET ALLOCATIONS
WITH ACTUAL EXPENDITURES*

Category	Budget Allocation Years 1 & 2	Cumulative Accrued Expenditures[1]	Remaining Balance
Training	$ 1,292,000	$ -	$1,292,000
Commodities	1,759,000	374,874	1,384,126
Construction	1,052,000	-	1,052,000
Other Costs	890,000	113,099	776,901
	$ 4,993,000	$487,973	$4,505,027

*This table does not include Technical Assistance and Accounting Services budget allocations nor are Inflation And Contingency included.

As shown in Table IV only 9.8% of the budget allocation for years 1 and 2 have been disbursed or accrued as of December 31, 1984. The low percentage of disbursements as compared to allocations is due to the slow pace of Project start up. The Grant Agreement was signed on August 29, 1983 and the MEDEX group began arrivin' during July, 1984. The G.O.L. contribution for FY 84 was received by FY 85 and other delays in Grantee conditions precedent are causes for the current project status. However, as of the writing of this report, significant activity is taking place in the area of training, construction and personnel deployment in the target countries. We conclude that, for the most part, USAID Project funds are being utilized properly.

[1] Based on a USAID internal financial status of the Primary Health Care Project as of December 31, 1984.

REVIEW OF CONTROLS OVER PROJECT RESOURCES

Proper controls over Project resources are both financial and administrative in nature. Financial controls include the reconciliation of bank accounts, the various approval authorities over financial transactions, periodic inventories, the maintenance of property registers and so on. Administrative controls include the segregation of incompatible functions, the bonding of employees in positions of trust, control of access to property and standard operating procedures. In those instances wherein proper financial and administrative controls are not feasible due to staffing and limited resources, the involvement of the senior management in the review and approval process, is seen as a mitigating strength.

The specific review procedures employed in the review of controls over Project resources included the following:

1) Conducted a review of the books and records.
2) Conducted and analyzed an internal control questionnaire.
3) Counted petty cash and tested supporting documentation.
4) Interviewed the custodians of both G.O.L. and USAID funds and property records.
5) Prepared bank reconciliations and tested reconciling items.
6) Examined documentation supporting vouchered transactions.

Discussions on the results of our test work will include only those items that we feel will require attention and corrective action. We are also cognizant of the fact that the project has only been operating about four months and that many of the problems encountered will be corrected in the systems design, implementation, and training phase of our engagement. Nevertheless, the Project does have support functions within the MH&SW that could have corrected most of the negative elements of project financial management.

A. Review of the Books and Records

1) General Ledger

The project had not established permanent books and records as of the start of our engagement. A temporary ledger was established using ruled and headed sheets from a columnar pad that was used to accumulate like items. The accounts used were those taken from an austerity budget approved by the SER Sub-Committee when the first $50,000 was received from the G.O.L. The temporary ledger showed only the activity for the month of November and the brought forward balance was the amount of unexpended funds in each austerity budget category. There were no references to indicate which file or journal the activity was derived and, therefore, there was no audit trail. The temporary ledger also contained accounts entitled contingency and unspecified, which are not accounts but spending allocations and are not normally found in the general ledger. The general ledger did not show the cash account balance or any asset, liability or fund balance accounts.

2) Voucher Register

A temporary voucher register is maintained showing the date, check number, voucher number, check amount, payee, signature of the payee and a written description of the nature of the expenditure. There is no account coding and therefore, each transaction has to be posted to the general ledger individually, a time consuming and inefficient process. The voucher register should not show the signature of the payee, the register is not totaled at the end of the period and does not show activity for the month of October. The activity for the month of October is included in the financial statements presented in this report.

3) Payroll Register

The payroll register was prepared for the month of October, November, and December. The payroll register showed no withholdings for the Progress and Development Tax and the National Reconstruction Tax. In addition, there were no taxes withheld on the Project Manager's salary adjustment. The payroll expense shown on the temporary general ledger was the employees net pay and should have been the employees gross pay.

4) Check Register

A check register was not maintained by the Project. All checks written were recorded in the voucher register which did not provide information as to the cash account balance. The Project had one cash receipt of $50,000 during the period. The receipt was not recorded in any of the temporary records maintained by the Project.

5) Bank Reconciliations

The Project opened a bank account in September, 1984 and the Project's bank statements were received in January, 1985. It appears as though there had been no communications from the Project to the bank requesting that the Administrative Assistant be allowed to collect the bank statements. As a result, there were no bank reconciliations prepared until January, 1985. We prepared the bank reconciliations and provided technical assistance to the Administrative Assistant on bank reconciliation procedures. There were no unusual items noted.

6) Recommendations

We recommend that permanent books and records be established and maintained for the Project that include a general ledger, voucher register, check register, petty cash system and a payroll register. That bank reconciliations form part of the monthly reporting format to the project manager.

B. Review of Internal Controls

1) Cash Disbursements

A significant amount of cash disbursements are not made by check but through the petty cash system. Disbursements by check require the review and approval by two authorized signators, a control that is lacking with petty cash disbursements. Documentation supporting check disbursements are not canceled to preclude their reuse and checks are drawn for use as petty cash without the accounting for petty cash already expended.

2) Petty Cash

Petty cash is not operated on an imprest system wherein petty cash fund expenditures are reviewed by a responsible official prior to replenishment. Petty cash is not limited to a specified amount and expenditures are not restricted to those of a petty nature. During the review of subsequent activity up through the end of our field work, February 22, 1985, we observed that five checks had been issued to petty cash totaling $3,000. We are told that

checks were issued to the petty cash custodian, the Administrative Assistant, to help speed up the renovation work on the Project Office. There were no requirements that expenditures included under one check be accounted for prior to the encashment of a subsequent check. To satisfy ourselves as to the proper handling of these unusual petty cash transactions, we counted petty cash on hand and examined supporting documentation. Our results indicated that over $700 could not be accounted for. This matter was discussed and resolved with the Administrative Assistant and other Project management personnel.

3) Cash Management

Petty cash fund is not counted and balanced by someone other than the petty cash custodian. There were several petty cash expenditures made in excess of $200 and since controls over petty cash do no include the review and approval by two authorized signators, there should be a review of petty cash transactions and cash on hand by someone other than the petty cash custodian on a periodic basis.

4) Purchases

Purchase orders and receiving reports are not used because the volume of activity is low, items purchased are consumed in a relatively short period of time and the project does not have the staff to maintain such a

procurement system. Invoices are received at the point of sale, as there are very few credit purchases. However, there is no evidence that invoices are being verified for mathematical accuracy. Expenditure transaction files are not maintained in such a manner that documents supporting transactions can be easily located. Documents supporting petty cash transactions are not kept in the petty cash box such that at any point in time, cash plus petty cash expenditures shown in the box equal the petty cash fund balance.

5) Property Management

With the exception of the new Project office, all non-expendable properties have been purchased through USAID. The documents supporting the purchase of the Project office has not been probated as is required in the exchange of ownership of real property. In addition, the agreement of sale does not refer to the land on which the building is located. If the land belongs to J.F.K. Hospital, then arrangements may have to be made for the use of the land depending on the agreement between the contractor of the new maternity center (seller of the Project office) and the G.O.L./MHASW.

Other Project property and equipment include a copy machine, vehicles, residential furniture and appliances, etc. that have been purchased by USAID. There are no property and equipment records maintained. Adequate

property records would include for each piece of equipment or property, the name, item description (make, serial number, color, size, etc.) vendor, date of installation or purchase, payment and source of funds. Documentation necessary for the establishment of property records are available at the Project office and USAID. We recommend that adequate property records be established for all Project property and equipment and that a physical inventory be taken on an annual basis.

Project and equipment in the possession of the Project does not have insurance. While insurance coverage is optional with respect to most Project property and equipment, USAID policies and procedures governing vehicle use, require that all Project vehicles purchased with USAID funds maintain certain levels of insurance coverage. the USAID Mission To Liberia Policy And Procedures Manual, Delegation of Authority - Policy On Use Of Project Funded Vehicles, Section IV (1) requires that "...the agency or organizational unit responsible for registration of vehicles will also be responsible for the purchase and timely renewal of adequate third-party insurance coverage at least to the minimum required by law, (minimum coverage $10,000/$20,000/$10,000)." This matter has been brought to the attention of those responsible. We recommend that all Project vehicles carry property insurance of at least the minimum levels prescribed by USAID

policy.

6) Employee Loans

Employee loans are not prohibited. Loans made to employees are oftentimes not recovered prior to employee termination, representing a waste of resources. Project resources are limited and expenditures should be limited to budgeted activities and should not be used to support employee personal activities outside the normal salary structure. We recommend that employee loans in the form of salary advances, outright loans to be deducted from salaries and other forms of loans be prohibited.

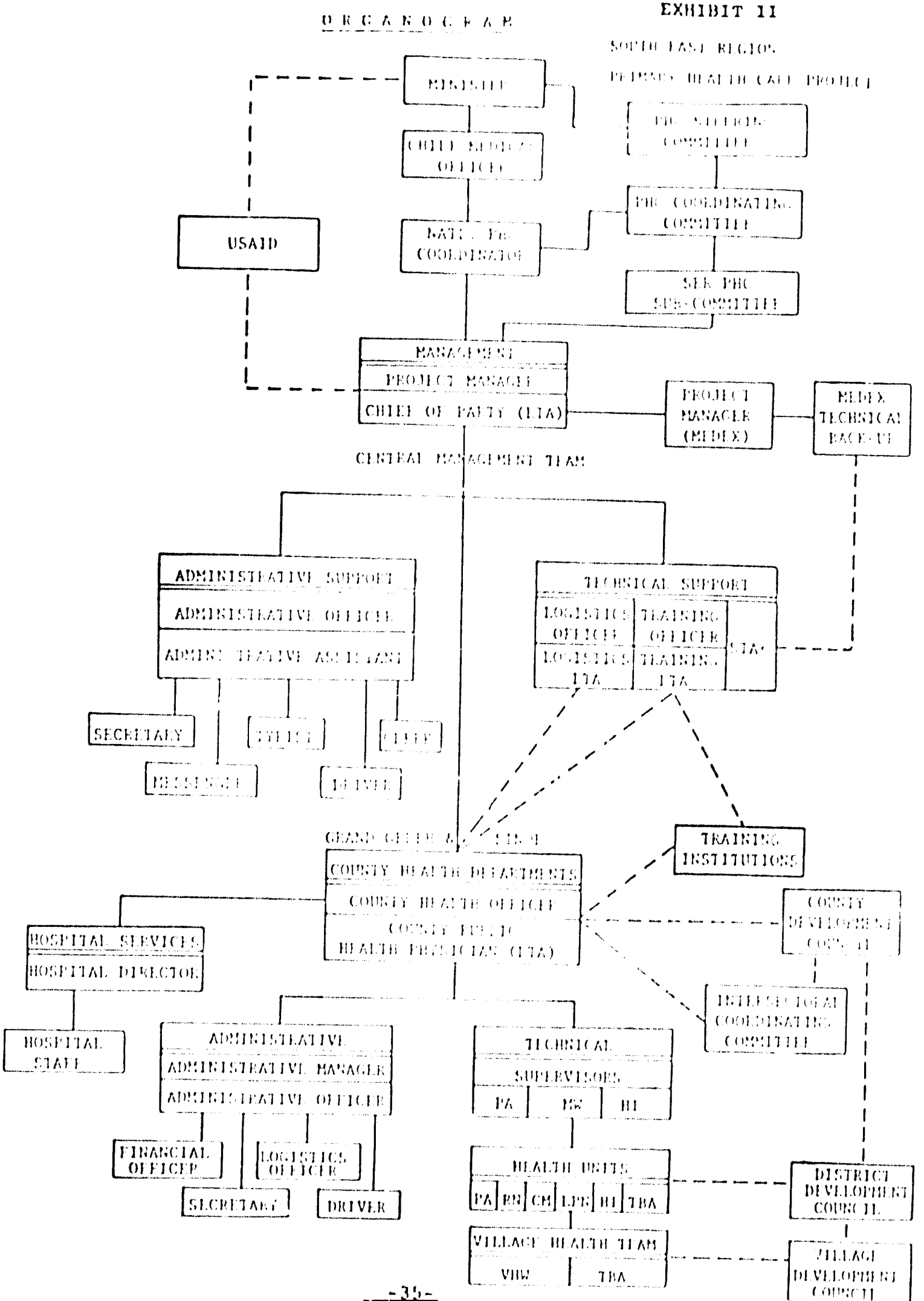
REVIEW OF MANAGEMENT EFFECTIVENESS AND ORGANIZATIONAL STRUCTURE

Designed Project Management consists of a Project Manager, a Deputy Project Manager, and an Administrative Assistant at the central level, and County Medical Directors at the County level. The Project Manager is supported by the Ministry of Health and Social Welfare (MH&SW) and is the Chief Medical Officer - Preventive Services. The Project Manager, according to the Grant Agreement, spends 25% of his time on Project activities. The Deputy Project Manager is a full time position, reports to the Project Manager and is primarily responsible to the Project Manager (CMO) - Preventive Services. The County Medical Directors will report to central Project Management when the Project is fully operational. Presently, there appears to be little activity between the County Medical Directors and Central Project Management because the implementation process is behind schedule. The MEDEX group, which is the counterpart Project Management, shares the same facilities and interacts with Project Management at all levels. Considered as the contractual implementation unit for the Project, the MEDEX group is excluded from our review of Project managment and organizational structure.

At the policy level, the Project Manager reports to the National Primary Health Care Coordinator (NPHC) who in turn reports to the Chief Medical Officer of the Republic of Liberia. This segment of the organizational structure links the PHC Project with Central Management within the MH&SW. Four Committees have been established to formulate and insure the implementation of overall policy. The Committees are the Primary Health Care Steering Committee, Primary Health Care Coordinating Committee, the Southeast Region Primary Health Care Sub-Committee and the Financial Management Committee. The Financial Management Committee appears to be a sub-committee of the Southeast Region Primary Health Care

Sub-Committee. The organizational structure appears to be in line with the organizational structure envisioned in The Grant Agreement. The Project's Organizational structure is shown as Exhibit II. The organizational structure embodies the concept of responsibility accounting wherein the activities of the Project Management are reviewed by the SEE subcommittee. Problems at the Project Management level are considered at the National Primary Health Care Coordinator level, whose responsibilities includes coordinating the MH&SW's intersectional support to the Project.

EXHIBIT II


ORGANOGRAM
SOUTH EAST REGION
MINISTER
CHIEF MEDICAL OFFICER
USAID
NATL. PHC COORDINATOR
PHC COORDINATING COMMITTEE
SEK PHC SUB-COMMITTEE
MANAGEMENT
PROJECT MANAGER
CHIEF OF PARTY (LTA)
PROJECT MANAGER (MEDEX)
MEDEX TECHNICAL BACK-UP
CENTRAL MANAGEMENT TEAM
ADMINISTRATIVE SUPPORT
ADMINISTRATIVE OFFICER
ADMINISTRATIVE ASSISTANT
SECRETARY
TYPIST
CLERK
MESSENGER
DRIVER
TECHNICAL SUPPORT
LOGISTICS OFFICER
TRAINING OFFICER
LOGISTICS LTA
TRAINING LTA
STAF
TRAINING INSTITUTIONS
COUNTY HEALTH DEPARTMENTS
COUNTY HEALTH OFFICER
COUNTY PUBLIC HEALTH PHYSICIAN (LTA)
COUNTY DEVELOPMENT COUNCIL
INTERSECTORAL COORDINATING COMMITTEE
HOSPITAL SERVICES
HOSPITAL DIRECTOR
HOSPITAL STAFF
ADMINISTRATIVE
ADMINISTRATIVE MANAGER
ADMINISTRATIVE OFFICER
FINANCIAL OFFICER
LOGISTICS OFFICER
SECRETARY
DRIVER
TECHNICAL
SUPERVISORS
PA
MW
HI
HEALTH UNITS
PA
RN
CM
LPN
HI
TBA
DISTRICT DEVELOPMENT COUNCIL
VILLAGE HEALTH TEAM
VHW
TBA
VILLAGE DEVELOPMENT COUNCIL

The Primary Health Care Sub-Committee meets on a regular basis and deals with the full range of financial problems that have beset the Project. It maintains minutes, assigns responsibilities and follow-up on actions taken. An overall discussion on compliance with decisions taken in committee meetings will be discussed later.

Theoretically, we are concerned about the number of different Committees (policy-making bodies) included in the Project design. The committees have interlocking members which could present us with the situation wherein a particular member would participate in the policy-making process at more than one level. Good organizational structure encourages autonomy within the organizational design as a means of preserving objectivity. We do realize that because of the importance of the Project to the availability of health care to rural Liberia, every effort is being made to insure smooth implementation of the Project and to encourage broad participation. However, we must not create a situation wherein people report to people and committees, and committees report to committees at several levels within the organizational structure. Our concern is that the existence of these committees would tend to elevate the decision making process and tend to increase and overload the central level decision making process to the extent that it would limit the nature of the decisions made at the county and village level, the focal point

of our decentralized system. We also create a situation wherein members involved at more than one level would not be able to attend and fully participate in the various committee deliberations and carry out their assigned functions within the MH&SW. We recommend that as the implementation of the Project progresses, that the number and activities of the various committees, be reviewed to insure that the decision making process is done in a manner consistent with the principles of decentralization.

With respect to central Project management, it was decided to do away with the format wherein the Project Manager would be part-time and the Deputy Project Manager would be full-time in favor of having a full-time Project Manager without a Deputy Project Manager. This procedure was in effect until the then Project Manager was relieved of his post. Currently, there has been a reversion to the original plan with the CMO - Preventive Services functioning as the Project Manager and a Deputy Project Manager is currently being sought. A potential candidate has been located and it is our understanding that consideration is being given to using the format of a full-time Project Manager. We feel that the management function would be stronger if the person with the ultimate decision making authority over the day-to-day activities is a full-time person. If the Deputy Project Manager is given this authority (assuming the format with the part-time Project Manager), then the next level of authority should be at the policy making level and not somewhere in between.

Central Project Management tends to be operating on a self-containment basis with little or no interaction with the various support organs within the MH&SW. Other than the inclusion of the Assistant Minister For Administration on the Primary Health Care Sub-Committee, and the preparation of the voucher to receive the budget allocation, there has been no other significant interaction with the various support organs of the MH&SW. Potential support organs within the MH&SW that would be of tremendous value to the Project include personnel, budget and finance, and procurement. The absence of any meaningful interaction manifests itself in the form of the nonexistence of a properly established set of books and records, inadequate documentation supporting vouchers, proper withholding taxes not being made and so on. A more detailed discussion on these shortcomings are included in the section on the Review of Controls Over Project Resources. We recommend that Project Management make a conscious effort to identify and cultivate areas of support within the MH&SW that would increase the effectiveness of Project Management with particular emphasis on financial management support.

COMPLIANCE WITH DECISIONS TAKEN AT COMMITTEE MEETINGS

It appears as though the PHC Sub-Committee, was the only committee that met on a regular basis to discuss and resolve financial issues relating to the PHC Project. We obtained copies of the minutes from Project personnel and reviewed the minutes to ascertain what type of financially related decisions were made by the committee and whether these decisions were carried out by the Project personnel involved. The results of our review showed that most of the significant decisions taken by the Sub-Committee were complied with by the Project personnel involved. There were instances noted wherein decisions taken by the committee were prolonged because some of those involved were either not prepared or absent. For example, a committee was set up to establish guidelines for PL-480 transactions. Drafts were submitted and resubmitted but never finalized and approved. We reviewed the draft document and although we noted several areas that could be strengthened, we felt that the document was an admirable effort.

We also noted that the PHC Sub-Committee met quite frequently, sometimes thrice per month. This frequency of meetings is definitely an indication of the Sub-Committee's dedication, but it is probably one of the causes for poor attendance. The Sub-Committee has decided to meet on a quarterly basis.