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AUDIT OF THE CO-FINANCED  
HILLTRIBE YOUTH TRAINING AND  
VILLAGE DEVELOPMENT PROJECT  
USAID/THAILAND  
Grant No. 493-0296-G-SS-3012

AUDIT REPORT NO. 2-493-86-02  
April 10, 1986

UNITED STATES GOVERNMENT

# Memorandum

TO : Mr. John Ericksson, Director      DATE: April 10, 1986  
      USAID/Thailand

FROM : Leo L. LaMotte      RIG/EA-86-128  
      RIG/A/Manila

SUBJECT: Audit Report No. 2-493-86-02, Hilltribe Youth  
          Training and Village Development Project  
          Grant No. 493-0296-G-SS-3012

This report presents the results of audit of The Thai Hill Crafts Foundation's Hilltribe Youth Training and Village Development Project funded under the USAID/Thailand Private Voluntary Organization (PVO) Co-financing I Project No. 493-0296.

## Background

In March 1983, USAID/Thailand granted the Thai Hill Crafts Foundation \$120,000 (later raised to \$157,575) to enable it to expand a training center in Chiang Rai Province and carry out vocational training programs and village development projects in five additional villages in that province. The grant period ended in December 1985.

## Audit Objectives And Scope

In March 1985, we performed an audit of PVO co-financing programs implemented by AID Missions in the Philippines, Indonesia and Thailand. The audit methodology included the review and field inspection of a representative sample of subprojects throughout the region. The Thai Hill Crafts Foundation's Hilltribe Youth Training and Village Development Project, which is the subject of this memorandum audit report, was a part of that sample.

This was a financial and compliance audit. The primary purpose of the audit was to determine whether the Foundation was conforming with AID fund control requirements. This purpose was accomplished through review of relevant Mission and Foundation accounting records and interviews with Mission and Foundation personnel.

The audit was made during the period March 1985 through February 1986, and in accordance with generally accepted government auditing standards.

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## Results Of Audit

Agency fund control regulations found in AID Handbook 13, and the Foundation grant agreement state that the recipient's financial management system shall provide for accurate, current, and complete disclosure for each AID-sponsored project. While the Hilltribe Youth Training and Village Development Project was making satisfactory implementation progress, the Foundation had not emplaced an acceptable system to properly account for AID grant funds. Consequently, the Foundation was not complying with AID fund control regulations and the Mission could not be assured that AID funds were properly expended. Thus, based on review of selected transactions valued at about \$40,000, at least \$13,000 in AID funds were improperly spent or inappropriately accounted for under the Foundation accounting system.

According to Handbook 13 and referenced in the grant agreement, the grantee's financial management system must provide: records that identify adequately the source and application of funds for AID-sponsored activities; effective control over the accountability for all funds, property, and other assets; and, accounting records that are supported by documentation that, at a minimum, will identify, segregate, accumulate, and record all costs incurred under the grant. Further, AID Handbook 19, chapter 8 requires that the Mission Controller review or arrange for reviews of borrower/grantee accounting records as necessary to determine whether they are adequate to ensure and disclose compliance with all conditions in the agreement concerning systems of accounts and related reporting.

The Foundation accounting system did not meet Agency fund control standards. The system did not segregate AID and non-AID funds, provide effective control over and accountability for all AID funds and property, or provide adequate documentary support for recording costs. Mission project office officials told us that, to their knowledge, the Mission had not yet evaluated the Foundation's financial record system. In addition, Foundation managers told us that, to their knowledge, the Mission had never reviewed its accounting system.

Below are specific examples of the fundamental fund control deficiencies.

- The Foundation office manager stated that the Foundation accounting records commingled AID and non-AID costs and funds. Therefore, without a complete reconciliation of the expense accounts, it was not possible for us to identify AID-financed subproject cost.
  
- Although the grant budget called for an expenditure of \$87 for cement purchases, the Foundation accounting records showed that AID had been charged \$304 for this item.

- Although AID reimbursed the Foundation \$2,600 for a "bio-gas digester" and training personnel in November 1984, the items and services had not been purchased by the time of our field work in May of 1985. Neither the Foundation nor AID personnel could identify the final disposition of the \$2,600 as the funds were not recorded in the Foundation books of account.
- In sample purchases valued at over \$14,500, foundation accounting files did not contain receipts or other evidence to properly document purchases amounting to over \$6,900. Inadequately documented items included dental treatment for school students, eyeglasses, bicycles, lavatories, a camera and construction pipe.

USAID/Thailand and PVO accounting records were also inconsistent. Therefore, it was not possible to determine the precise status of grant funds. For instance, USAID/Thailand records showed that the Mission had expended \$105,078 under the grant through March 1985. Foundation records showed that it had received \$32,351 and expended \$24,360 in AID funding through the same period. The latter figures according to the Foundation official were estimates since the Foundation accounting records did not segregate AID and non-AID funds.

AID regulations require that the USAID ensure that grantees establish systems which properly account for AID-financed activities. The Foundation had not established such a system. As a result, AID could not be assured that AID grant funds provided to the Foundation had been properly expended to implement the Hilltribe Youth Training and Village Development Project.

We request that USAID/Thailand provide written notice within 30 days of any additional information related to action planned or taken to implement the recommendation.

### Recommendation

We recommend that USAID/Thailand

- a) Suspend further payments to the Thai Hill Crafts Foundation under Grant No. 493-0296-G-SS-3012 and avoid entering into any further funding agreements with the Foundation until such time it implements an adequate fund control system,
- b) Reconcile Mission and Thai Hill Crafts Foundation accounting records and make an appropriate adjustment to the final grant payment.

### Management Comments

USAID concurred with the report findings and plans to use the services of a certified public accounting firm to review the Foundation accounting and internal control systems. See Appendix 1 for the USAID comments on the audit report.

UNITED STATES GOVERNMENT

# memorandum

DATE: March 26, 1986

REPLY TO  
ATTN OF: Director, John R. Eriksson *John R. Eriksson*

SUBJECT: The Thai Hill-Crafts Foundation (THCF)'s Hilltribe Youth Training and Village Development Project Grant No. 493-0296-G-3012

TO: RIG/A/Manila, Mr. Leo L. LaMotte

Following is our proposed response to your draft audit report enclosed with the memorandum dated February 14, 1986, concerning the subject project which terminated on January 31, 1986.

1. The THCF is an indigenous Thai private and voluntary organization under the patronage of Her Royal Highness, the Princess Mother. Established in 1972, the Foundation has carried out its role with the cooperation of members of the Royal family, governmental agencies, businesses and the Canadian University Service Overseas (CUSO). Based on the THCF's prior work and the Royal Thai Government (RTG) approval as well as the USAID review of the Foundation's capability, USAID issued THCF financial certification in 1978, and a three year USAID grant for \$32,000 was provided to the Foundation in 1978 to implement a "Hilltribe Youth Leadership Training" project.
2. The first grant was successfully completed, and we believe administrative and financial management was in accordance with acceptable standards. Therefore, USAID approved the subject grant submitted by the THCF on March 17, 1983.
3. USAID is aware that some indigenous PVOs are generally weak in project management. Thus, USAID policy is aimed at strengthening the capability and capacity of the Thai PVOs which have the potential of becoming stronger in the future. Accordingly, we now require initial and subsequent (annual or semi-annual) reviews of financial management systems of all PVOs receiving assistance under the PVO Co-Fi II project. In addition, in the case of THCF, USAID has closely monitored THCF activities at the project site in the Northern part of Thailand and at its headquarters in Bangkok. During the project life, follow-up letters from USAID have been sent rather regularly to the THCF since November 1983 concerning its progress reports, procurement, AID marking requirements, as well as AID accounting system. THCF staff have also attended AID sponsored PVO Training Workshops to improve their financial and



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project management skills. In addition, project site visits were also conducted along with telephone discussions both in Bangkok Headquarters and the project site.

4. Based on the THCF procurement report recently received, commodities have generally been purchased as planned in the project proposal keeping in mind that certain internal adjustments are allowable. USAID plans to review the THCF financial report which will be forwarded to USAID soon. USAID is also planning to send O/HRT and O/FIN staff to examine the procured commodities at the project site in Chiang Rai. Before this, however, USAID will arrange as soon as possible for an independent financial review of the accounting and internal control system under our arrangement with the Ernst & Whinney CPA firm. This would have occurred in any event sometime this fiscal year under several USAID operating procedures per para 3 above.

USAID will finish the results of the above reviews and will send you a report of findings.

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