

PD-ABC-721

con 71399

**PRE-AWARD SURVEY OF THE
CAPABILITY OF THE FAMILY PLANNING ASSOCIATION
OF NICARAGUA TO MANAGE THE FAMILY PLANNING
EXPANSION AND REGIONALIZATION PROJECT**

**Audit Report No. 1-524-91-31-N
May 24, 1991**

AGENCY FOR INTERNATIONAL DEVELOPMENT

U. S. MAILING ADDRESS:
RIG/T
APO MIAMI 34022

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

TELEPHONES:
32-9987 - 32-3120
FAX No. (504) 31-4463

May 24, 1991

MEMORANDUM

TO: D/USAID/Nicaragua, Janet C. Ballantyne

FROM: RIG/A/T Acting, Wayne J. Watson 

SUBJECT: Pre-Award Survey of the Capability of the Family Planning Association of Nicaragua to Manage the Family Planning Expansion and Regionalization Project

This report presents the results of a non-Federal pre-award survey of the Capability of the Family Planning Association (Association) of Nicaragua to Manage USAID/Nicaragua's Family Planning Expansion and Regionalization Project, Project No. 524-0312. The accounting firm of Price Waterhouse prepared the report which is dated March 20, 1991.

The purpose of the project is to support the Association's effort to promote reproductive health in Nicaragua and ensure that both the public and private sectors have access to demonstration and training models for information, education and the delivery of family planning services.

The purpose of the pre-award survey was to report on the Association's: (1) financial and managerial capability to administer the project, (2) internal control structure with respect to the project's operations, (3) compliance with the terms of the agreement and applicable laws and regulations, and (4) statement of proposed costs for direct and indirect costs. The scope of the audit included a review of the direct and indirect costs presented by the Association in its cost proposal for the project, a study and review of the Association's internal control structure, an evaluation of the Association's ability to comply with agreement terms, laws and regulations, and an analysis and review of the Association's financial and managerial capability to administer the project.

Price Waterhouse concluded that the Association has sufficient management capability and internal control structure for project purposes and for the items tested has the capability to comply with laws, regulations, contracts and grants

relevant to the project. But the auditors concluded that the Association does not have the financial capability required to undertake the project under an expense reimbursement method. The auditors were not provided the bases, criteria nor the documentation supporting the proposed direct and indirect costs and because of this scope limitation did not express an opinion on the project's proposed costs. The auditors also found that the Association does not have adequate manuals to provide guidelines for project execution.

This report was discussed with the Association's management who expressed general agreement with the report and stated that they were in the process of gathering documentation in support of the proposed costs.

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

Recommendation No. 1

We recommend that USAID/Nicaragua, as a condition precedent to disbursement of funds, require that the Family Planning Association of Nicaragua provide documentation to adequately support its proposed direct and indirect costs for implementing the project.

Recommendation No. 2

We recommend that USAID/Nicaragua, as a condition precedent to disbursement of funds, require the Family Planning Association of Nicaragua to demonstrate that it has adequate organization, financial and administrative procedures manuals.

Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

PRE-AWARD SURVEY OF THE CAPABILITY OF
THE FAMILY PLANNING ASSOCIATION OF NICARAGUA
TO MANAGE THE FAMILY PLANNING EXPANSION AND
REGIONALIZATION PROJECT
USAID/NICARAGUA PROJECT No.524-0312

* * *

MARCH 20, 1991

PRE-AWARD SURVEY OF THE CAPABILITY OF THE FAMILY
PLANNING ASSOCIATION OF NICARAGUA TO MANAGE THE FAMILY
PLANNING EXPANSION AND REGIONALIZATION PROJECT
USAID/NICARAGUA PROJECT No.524-0312

TABLE OF CONTENTS

	<u>PAGE</u>
I Transmittal Letter and Summary	1 - 4
- Background	
- Pre-award Survey Objectives	
- Scope of Work	
- Results of Work	
- Management Comments	
II Costs Proposed by PROFAMILIA	5 - 7
- Independent Auditor's Report	
- Cost Proposal	
- Finding	
III Management Capability	8 - 10
- Independent Auditor's Report	
- Finding	
IV Financial Capability	11
- Independent Auditor's Report	
V Internal Control Structure	12 - 13
- Independent Auditor's Report	
VI Compliance with Applicable Laws and Regulations	14
- Independent Auditor's Report	
VII List of Report Recommendations	15

Price Waterhouse

March 20, 1991

Mr. Reginald Howard
Regional Inspector General for Audit
United States Agency for
International Development
Tegucigalpa, Honduras

Dear Mr. Howard:

This reports presents the results of our pre-award survey of the capability of the Family Planning Association of Nicaragua (PROFAMILIA) to manage the Family Planning Expansion and Regionalization Project, under USAID/Nicaragua Project No. 524-0312.

BACKGROUND

Nicaragua has one of the fastest growing populations in Latin America. The rapid population growth undermines development efforts by expanding the number of poor, needy and economically dependent individuals faster than the government can expand services. This leads to either an ever growing erosion in social and economic well-being or, at the least, to a slowing of the expansion of social and economic well-being to the population.

Contraceptive prevalence statistics are conflicting and out dated, but it is estimated that prevalence is between eight and nine per cent and there is little doubt that there is a large demand for voluntary family planning services.

USAID/Nicaragua's short term strategy statement identifies Nicaragua's high population growth rate as being one of the country's significant development problems. Part of the Mission's medium-to-long term strategy in this area is to support the Family Planning Association of Nicaragua (Asociación Pro-bienestar de la Familia Nicaragüense - PROFAMILIA) in the expansion of its activities.

PROFAMILIA was founded in 1970 as Asociación Demográfica Nicaraguense and it changed to its present name in 1989. The Association's objective is to be the leader in the promotion of reproductive health in Nicaragua by ensuring that both public and

private sectors have access to demonstration and training models for information, education and the delivery of family planning services. Its further objective is to participate and assist in the design, development and implementation of a national population policy.

Currently, the Association provides medical/surgical contraceptive services through two family planning clinics in Managua. Additionally it delivers family planning services to areas beyond the reach of the two Managua clinics by distributing contraceptives through a community-based distribution (CBD) program involving 200 CBD posts.

The present CBD posts are concentrated in a belt that runs northwest-southeast of Managua, along the Pacific and lake coasts, without reaching into the mountainous regions that dominate the country. The CBD program is integrally related to two other educational/training programs carried out by PROFAMILIA staff at all CBD posts.

USAID/Nicaragua's support to PROFAMILIA will be through a planned Family Planning Expansion and Regionalization Project. The project basically supports a proposal received from PROFAMILIA to expand its activities with A.I.D. backing.

OBJECTIVES

The objectives of our pre-award survey of PROFAMILIA were to determine whether:

1. The Project's direct and indirect proposed costs were based on the most current, complete and accurate pricing data available, and reflected only allowable, allocable and reasonable costs considered necessary to accomplish project objectives.
2. PROFAMILIA has sufficient management capability and span of control to administer the Project, considering its current and planned projects workload, staffing levels and past performance.
3. PROFAMILIA is financially capable of performing the proposed project activities.
4. PROFAMILIA's internal control structure, including its control environment, accounting system and related control procedures, contains sufficient capacity to accurately capture accounting data under the agreement and that the internal control is adequate for project purposes.
5. PROFAMILIA is in compliance with applicable laws, regulations and agreement terms.

SCOPE OF WORK

We conducted our work for the pre-award survey of PROFAMILIA in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision).

In applying the audit and review procedures considered by us necessary to meet the above mentioned auditing standards, we reviewed the following documents and applied their criteria to the different items tested in performing our work.

- 1) The Proposal for the Family Planning Expansion and Regionalization Project.
- 2) U.S. Office of Management and Budget (OMB) Circular No. A-122 "Cost Principles For Nonprofit Organizations"
- 3) Mandatory Standard Provisions for Non-U.S., Non-governmental Grantees.
- 4) OMB Circular A-110 "Grants and Agreements with Institutions of Higher Education, Hospitals and other Nonprofit Organizations".
- 5) A.I.D. Handbook 13. "Grants".
- 6) A.I.D Handbook 11.

RESULTS OF WORK

1. Costs Proposed by PROFAMILIA

We were not furnished by PROFAMILIA with the bases, criteria and documentation used to estimate the direct and indirect costs for the Family Planning Expansion and Regionalization Project included in the budget accompanying the proposal for executing the related project operations. Because of this limitation, the scope of our review was not sufficient for us to determine whether the related costs were allocable, allowable, reasonable, and necessary for the project execution, and consequently, we are not in a position to express, and we do not express, an opinion on the project proposed costs.

2. Management Capability

PROFAMILIA appears to have the management capability required to undertake the project. We do believe, however, that such capacity can be strengthened by the following:

- Incorporating to the present personnel manual the authority and responsibility levels and duties for the positions proposed to be filled in for project execution, and
- Expanding the financial accounting manual to detail the application and handling of project accounts for financial and budget purposes in relation to the use of A.I.D. funds and defining the administrative procedures that will guide project operations, with emphasis on the control and management of inventories, cash receipts and imprest funds.

3. Financial Capability

PROFAMILIA does not have the financial capability required to undertake the project under an expenses reimbursement method; consequently, the feasibility of the project, if undertaken by PROFAMILIA, is contingent upon PROFAMILIA's ability to secure advance funds.

4. Internal Control Structure

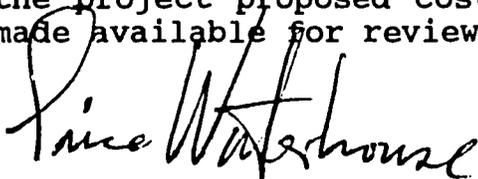
The entity's internal control structure appears adequate for project purposes. We do believe, however, that it could be strengthened by designing and implementing job descriptions, and the manuals described under the management capability section, above.

5. Compliance with Agreement Terms and Applicable Laws and Regulations

Except for the conditions mentioned under points 1 and 2, above, nothing came to our attention that would indicate that PROFAMILIA would not be able to comply with agreement terms, and applicable laws and regulations.

MANAGEMENT COMMENTS

At an exit conference held on March 20, 1991, at which Ms. Maria Elena Flores representing the Office of the Regional Inspector General for Audit (RIG/A/T) was in attendance, Messrs. Sergio Maltez and Roberto Rocha of PROFAMILIA expressed general agreement with the findings and conclusions of the pre-award survey with the indication that they had been gathering all documents in support of the project proposed costs and that such documentation could be made available for review at any time.



Price Waterhouse

PRE-AWARD SURVEY OF THE CAPABILITY OF THE FAMILY
PLANNING ASSOCIATION OF NICARAGUA TO MANAGE THE FAMILY
PLANNING EXPANSION AND REGIONALIZATION PROJECT
USAID/NICARAGUA PROJECT No.524-0312

PROPOSED COSTS

INDEPENDENT AUDITOR'S REPORT

We have reviewed the accompanying cost proposal for the Family Planning Expansion and Regionalization Project, USAID/Nicaragua project No. 524-0312, to be managed by the Family Planning Association of Nicaragua (Asociación Pro-Bienestar de la Familia Nicaragüense - PROFAMILIA). Our review covered those areas we considered relevant to the criteria established by USAID/Nicaragua for this survey and, except for what is mentioned in the following paragraph, it was performed in accordance with the U. S. Comptroller General's "Government Auditing Standards" (1988 Revision).

As described under Finding No. 1 in page No. 7, PROFAMILIA could not furnish us with the bases, criteria and documentation used to prepare the proposed cost for the execution of the Family Planning Expansion and Regionalization Projects.

Because of the limitation described in the preceding paragraph, the scope of our work was not sufficient to permit us to express and we do not express, and opinion on the reasonableness, allowability, and necessity of the proposed direct and indirect costs for USAID/Nicaragua Project No. 524-0312.

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



February 12, 1991

FAMILY PLANNING ASSOCIATION OF NICARAGUA (PROFAMILIA)

COST PROPOSAL FOR THE FAMILY PLANNING EXPANSION AND

REGIONALIZATION PROJECT

USAID/NICARAGUA PROJECT No. 524-0312

(expressed in U.S. Dollars)

PROJECT ELEMENT	A.I.D.	IPPF	AVSG	LOCAL FUNDS	TOTAL
I. Community Base Distribution	\$ 225,646	\$ 106,781			\$ 332,427
II. Regional Centers	1,609,942	234,659	\$ 81,300	\$ 522,415	2,448,316
III. Public Information and Education	463,383	715,898			1,179,281
IV. National Training Center	338,748				338,748
V. Evaluation and Investigation	650,323				650,323
VI. Contraceptives	647,890	586,186			1,234,076
VII. Administration and General Services	809,618	652,165			1,461,783
TOTAL COSTS	\$4,745,550	\$2,295,689	\$ 81,300	\$ 522,415	\$7,644,954
% CONTRIBUTION	62%	30%	1%	7%	100%

PRE-AWARD SURVEY OF THE CAPABILITY OF THE FAMILY
PLANNING ASSOCIATION OF NICARAGUA TO MANAGE THE FAMILY
PLANNING EXPANSION AND REGIONALIZATION PROJECT

PROJECT No.524-0312

REPORT ON PROPOSED COSTS

FINDING

1. PROFAMILIA Did Not Document in Writing the Eligibility Criteria Related to the Project Proposed Costs nor the Basis Applied to Prepare the Pertinent Financial Data.

Condition:

The cost proposal for project execution does not describe the basis and criteria applied to prepare the corresponding budget, and we were not furnished with the documentation and other related information.

Criteria:

The cost proposal should be based on the most current, complete and accurate data, which should be available in support of the project's budget for the approval of prospective donors.

Cause:

The budget for the project was prepared in conjunction with staff of prospective donors (A.I.D. and IPPF) and PROFAMILIA did not maintain the documentation on the criteria, basis, assumptions and other information in support of the project financial data.

Effect:

There is uncertainty as to whether the proposed costs meet the eligibility criteria established by A.I.D.

Recommendation:

PROFAMILIA should properly document the proposed costs, by taking into account the eligibility criteria established for such purposes. To this effect PROFAMILIA should obtain from A.I.D. the provisions to which the entity would be subject when managing A.I.D. project funds. Also, PROFAMILIA should submit to A.I.D. for its review, the resulting proposed costs prior to A.I.D. authorizing the use of project funds.

Price Waterhouse

PRE-AWARD SURVEY OF THE CAPABILITY OF THE FAMILY
PLANNING ASSOCIATION OF NICARAGUA TO MANAGE THE FAMILY
PLANNING EXPANSION AND REGIONALIZATION PROJECT
USAID/NICARAGUA PROJECT No.524-0312
REPORT ON MANAGEMENT CAPABILITY
INDEPENDENT AUDITOR'S REPORT

We have performed a pre-award survey of PROFAMILIA's management capability for the administration of the Family Planning Expansion and Regionalization Project, USAID/Nicaragua Project No. 524-0312. Our evaluation included those areas we considered relevant to the criteria established by USAID/Nicaragua as set forth in the statement of work for this pre-award survey. Our work was performed in accordance with the United States Comptroller General's "Government Auditing Standards" (1988 Revision).

Based on our evaluation and our understanding of the criteria included in the statement of work referred to in the preceding paragraph, we believe that PROFAMILIA has sufficient capability to manage the Family Planning Expansion and Regionalization Project, USAID/Nicaragua Project No. 524-0312, except for what it is described under finding No. 1 on pages 9 and 10.

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



February 12, 1991

PRE-AWARD SURVEY OF THE CAPABILITY OF THE FAMILY
PLANNING ASSOCIATION OF NICARAGUA TO MANAGE THE FAMILY
PLANNING EXPANSION AND REGIONALIZATION PROJECT
USAID/NICARAGUA PROJECT No.524-0312
REPORT ON MANAGEMENT CAPABILITY

FINDING

1. PROFAMILIA Does not Have Adequate Organization, Financial and Administrative Procedures Manuals to Provide Appropriate Guidelines Regarding Project Execution and Assurance that A.I.D. Funds will be used for Authorized Purposes Only.

Condition:

The present PROFAMILIA's organization manual does not define the authority and responsibility levels as well as the specific duties to be assigned to the positions required for project execution.

Furthermore, the entity lacks a financial accounting manual and an administrative procedures manual where the accounts to be used for accounting and budget purposes and the key controls of the system, together with the forms and registers to be used in their application, are fully described.

Criteria:

PROFAMILIA is responsible for maintaining an internal control structure and appropriate accounting and budgetary control systems to adequately capture, register summarize and report financial data pertaining to project operations and transactions.

Cause:

PROFAMILIA had not felt the need to strengthen its own organization and administrative procedures as its present level of activity is limited.

Effect:

The lack of financial accounting systems and an internal control structure appropriate for project purposes may result in inefficiencies in the project execution, and in the possibility that some agreement terms may not be fully complied with which in turn may result in questionable costs.

Recommendation:

PROFAMILIA should establish a proper internal control structure, which encompasses a control environment, a financial system and control procedures, according to the A.I.D.'s normal guidelines and requirements. Such structure should be in place prior to making disbursements.

Price Waterhouse

PRE-AWARD SURVEY OF THE CAPABILITY OF THE FAMILY
PLANNING ASSOCIATION OF NICARAGUA TO MANAGE THE FAMILY
PLANNING EXPANSION AND REGIONALIZATION PROJECT
USAID/NICARAGUA PROJECT No. 524-0312
REPORT ON FINANCIAL CAPABILITY
INDEPENDENT AUDITOR'S REPORT

We have performed a pre-award survey for PROFAMILIA's financial capability to manage the Family Planning Expansion and Regionalization Project, USAID/Nicaragua Project No. 524-0312. Our evaluation was performed pursuant to USAID/Nicaragua's statement of work for the above mentioned project and in accordance with the United States Comptroller General's "Government Auditing Standards." Our work included, to the extent considered by us necessary to meet stated objectives, a review of both audited and unaudited financial information.

Based on our evaluation as described above, we believe that PROFAMILIA lacks the financial capability required to undertake the above mentioned project under the expense reimbursement method.

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



February 12, 1991

Price Waterhouse

PRE-AWARD SURVEY OF THE CAPABILITY OF THE FAMILY
PLANNING ASSOCIATION OF NICARAGUA TO MANAGE THE FAMILY
PLANNING EXPANSION AND REGIONALIZATION PROJECT
USAID/NICARAGUA PROJECT No. 524-0312
REPORT ON INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

The family Planning Association of Nicaragua (Asociación Pro-Bienestar de la Familia Nicaragüense - PROFAMILIA) has been considered for a grant of US\$4,745,551 to manage the Family Planning Expansion and Regionalization Projects, USAID/Nicaragua Project No. 524-0312.

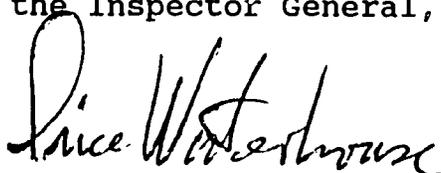
We have made a study of those internal accounting control and administrative control procedures of PROFAMILIA's that we considered relevant to the criteria established by USAID/Nicaragua in the statement of work for the current preaward survey. Since our study was related to the procedures PROFAMILIA proposes to follow in connection with the grant disbursements, it did not include tests of compliance with such procedures. Our study did not constitute an audit of any financial statements prepared by PROFAMILIA.

The management of PROFAMILIA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. We understand that the objective of those administrative control procedures comprehended in USAID/Nicaragua's criteria is to provide similar assurance as to compliance with its related requirements.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that degree of compliance with the procedures may deteriorate.

We understand that procedures in conformity with the criteria referred to in the first paragraph of this report are considered by USAID/Nicaragua to be adequate for its purposes in accordance with current regulations, and that procedures not in conformity therewith indicate some inadequacy for such purposes. Based on this understanding and on our study, we believe that PROFAMILIA's procedures would be adequate for USAID/Nicaragua purposes, assuming satisfactory compliance therewith. Certain conditions that we believe are material weaknesses and that may not be in conformity with the criteria referred to above are described under finding No. 1 in the proposed costs section and Finding No. 1 in the management capability section of this report.

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

A handwritten signature in cursive script, appearing to read "Lance Waterhouse".

February 12, 1991

Price Waterhouse

PRE-AWARD SURVEY OF THE CAPABILITY OF THE FAMILY
PLANNING ASSOCIATION OF NICARAGUA TO MANAGE THE FAMILY
PLANNING EXPANSION AND REGIONALIZATION PROJECT
USAID/NICARAGUA PROJECT No. 524-0312
COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITOR'S REPORT

Compliance with agreement terms and applicable laws and regulations is the responsibility of PROFAMILIA's management. As part of our survey of PROFAMILIA in connection with the Family Planning Expansion and Regionalization Project, USAID/Nicaragua Project No. 524-0312, we performed tests of PROFAMILIA's compliance with certain provisions of laws, regulations, contracts, and grants considered of general application and relevant to the proposed project. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that except for the matters described under Finding No. 1 in the management capability and No. 1 in the proposed costs section of this report, PROFAMILIA had complied, or was in position to comply, with applicable laws and regulations and proposed agreement terms. With respect to items not tested, nothing came to our attention that caused us to believe that PROFAMILIA had not complied, in all material respects, with those provisions.

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

Price Waterhouse
February 12, 1991

PRE-AWARD SURVEY OF THE CAPABILITY OF THE FAMILY
PLANNING ASSOCIATION OF NICARAGUA TO MANAGE THE FAMILY
PLANNING EXPANSION AND REGIONALIZATION PROJECT
USAID/NICARAGUA PROJECT No. 524-0312

LIST OF REPORT RECOMMENDATIONS

FINANCIAL CAPABILITY

Recommendation:

PROFAMILIA should properly document the proposed costs, by taking into account the eligibility criteria established for such purposes. To this effect PROFAMILIA should obtain from A.I.D. the provisions to which the entity would be subject when managing A.I.D. project funds. Also, PROFAMILIA should submit to A.I.D. for its review the resulting proposed costs prior to A.I.D. authorizing the use of project funds.

MANAGEMENT CAPABILITY

Recommendation:

PROFAMILIA should establish a proper internal control structure, which encompasses a control environment, a financial system and control procedures, according to the A.I.D.'s normal guidelines and requirements. Such structure should be in place prior to making disbursements.

REPORT DISTRIBUTION

U.S. Ambassador to Nicaragua	1
D/USAID/Nicaragua	5
AA/LAC	1
LAC/CONT	1
LAC/CAP/N	1
AA/XA	2
XA/PP	1
LEG	1
GC	1
AA/MS	2
FM/FPS	2
PPC/CDIE	3

Office of the Inspector General

IG	1
AIG/A	1
IG/A/PPO	2
IG/LC	1
IG/RM/C&R	5
AIG/I	1
IG/A/PSA	1
IG/A/FA	1

Regional Inspectors General

RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/Manila	1
RIG/A/Nairobi	1
RIG/A/Singapore	1
RIG/A/Washington	1
RIG/I/Tegucigalpa	1