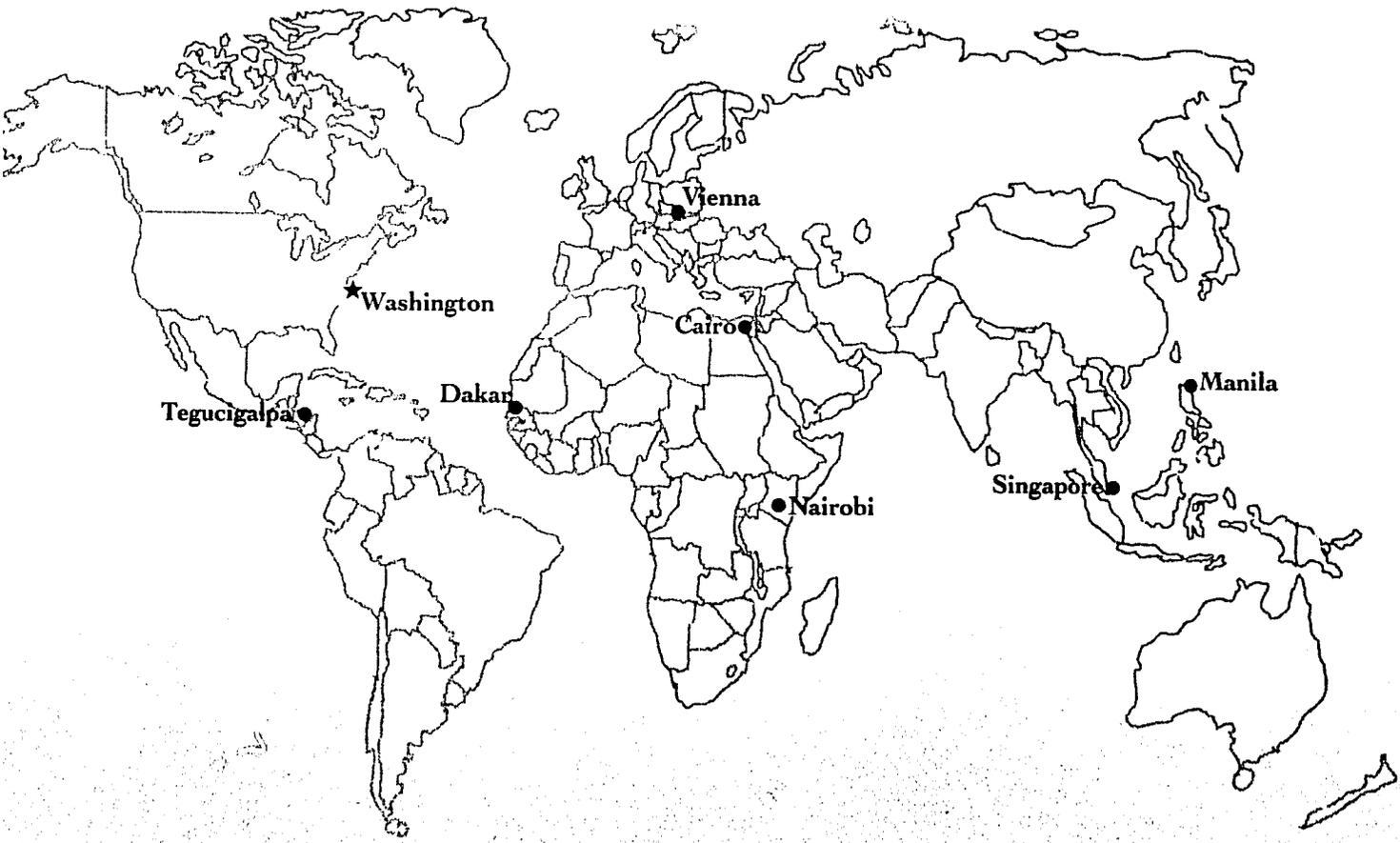


**Regional Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of USAID/Peru's Project Activities
Managed by the Projects in Information,
Health, Medicine, and Agriculture
August 31, 1987 to September 30, 1991**

**Audit Report No. 1-527-92-45-N
August 14, 1992**



**Contractor information contained in
this report may be privileged. The
restrictions of 18 USC 1905 should
be considered before any information
is released to the public.**



**Regional Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of USAID/Peru's Project Activities
Managed by the Projects in Information,
Health, Medicine, and Agriculture
August 31, 1987 to September 30, 1991**

**Audit Report No. 4-527-92-45-N
August 14, 1992**

-a-

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) 31-4465

August 14, 1992

MEMORANDUM

TO: D/USAID/Peru, Craig G. Buck

FROM: RIG/A/T, Lou Mundy



SUBJECT: Audit of USAID/Peru's Project Activities, Managed by the Projects in Information, Health, Medicine, and Agriculture, August 31, 1987 to September 30, 1991

This report presents the results of a financial audit of four USAID/Peru projects managed by a Peruvian private voluntary organization, Projects in Information, Health, Medicine, and Agriculture (the Organization), for the period August 31, 1987 to September 30, 1991. The audit firm of Arthur Andersen & Co. prepared the report dated June 22, 1992.

The Organization's objective was to assist the poor population by applying modern technology in the areas of information systems, health, medicine and agriculture. The Organization received funding from USAID/Peru under several projects with a combined budget of \$3.5 million to carry out its responsibilities. The audit coverage included A.I.D. funds totaling \$3.1 million provided to the Organization during the audit period under the following four USAID/Peru Project Agreements (Projects):

- Child Survival Journal, Project No. 527-0316,
- Integrated Food, Nutrition and Child Survival, Project No. 527-0323,
- AIDS Education and Prevention, Project No. 527-0333, and
- Private Voluntary Family Planning Services, Project No. 527-0335.

The objectives of the audit were to determine whether: (1) the Organization's consolidated fund accountability statement presents fairly, in all material respects, the financial activities under the Projects for the period audited, (2) the Organization's internal control structure was adequate to manage Project operations, and (3) the Organization had complied with the terms of the Projects' Agreements and applicable laws and regulations. The scope of the audit included an examination of Organization activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

The auditors concluded that the consolidated fund accountability statement presents fairly, in all material respects, the Projects' financial activities for the period audited. The auditors identified questionable costs of \$17,125 which are not considered sufficiently material to affect their opinion on the fund accountability statement.

b

With respect to the Organization's internal control structure, the auditors identified four areas of weakness. Although the auditors did not consider these to be material weaknesses, we believe that two areas, procedures for documenting cost reviews and fixed asset procurement procedures, do represent material areas of concern.

With respect to the Organization's compliance with Agreement terms and applicable laws and regulations, the auditors identified one material instance of noncompliance in that the Organization did not always follow the terms of the Projects' Agreements in relation to maintaining support documentation for expenditures.

The report was discussed with Organization officials who expressed general agreement with the report's contents. Management comments are presented as an annex to the audit report.

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/Peru resolve the questionable costs of \$17,125 (\$3,802 questioned and \$13,323 unsupported) identified in the Arthur Andersen & Co. audit report dated June 22, 1992, and recover from the Projects in Information, Health, Medicine, and Agriculture all the amounts determined to be unallowable.

Recommendation No. 2

We recommend that USAID/Peru, in conjunction with the Projects in Information, Health, Medicine, and Agriculture, establish procedures which will ensure that: (1) cost reviews are properly planned and documented, (2) procurement of fixed assets is in accordance with the terms of A.I.D.'s project agreements, and (3) project expenditures are properly supported.

Recommendation No. 1 will be considered resolved upon the Mission's determination of the amount of recovery, and will be considered closed upon the recovery of funds, offset of funds, or issuance of a Bill for Collection. Recommendation No. 2 will be considered resolved upon the Mission's presentation of an acceptable firm plan of action to correct the reported deficiencies, and will be considered closed upon the Mission's presentation of acceptable evidence that the required procedures have been established.

This final audit report is being transmitted to you for your action. Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

AUDIT OF THE ACTIVITIES OF USAID/PERU'S PROJECTS

MANAGED BY PRISMA

AS OF SEPTEMBER 30, 1991

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AUDIT OF THE ACTIVITIES OF USAID/PERU'S PROJECTS

MANAGED BY PRISMA

AS OF SEPTEMBER 30, 1991

TABLE OF CONTENTS

	<u>Page</u>
Transmittal letter and summary	
Background	1
Audit objectives and scope	3
Results of audit	6
Management comments	8
Fund accountability statement	
Independent auditors' report	9
Fund accountability statement	9
Notes to the fund accountability statement	12
Internal control structure	
Independent auditors' report	17
Findings	20
Compliance with agreement terms and applicable laws and regulations	
Independent auditors' report	24
Findings	26
List of report recommendations	
Exhibits I - IV	
Annex 1 - Management's comments	

2

- 1 -

COLERIDGE Y ASOCIADOS
REPRESENTANTES DE
ARTHUR ANDERSEN & CO.

June 22, 1992

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

Dear Mr. Howard:

This report presents the results of our financial audits of the activities managed by Projects in Information, Health, Medicine and Agriculture (PRISMA) in the following USAID/Peru's Projects:

1. Child Survival Journal Project (527-0316) for the period from August 31, 1987 to May 31, 1990;
2. Integrated Food, Nutrition and Child Survival Project (527-0323) for the period from September 30, 1988 to September 30, 1991;
3. AIDS Education and Prevention Project (527-0333) for the period from September 29, 1989 to September 30, 1991;
4. Private Voluntary Planning Services Project (527-0335) for the period from September 22, 1989 to September 30, 1991.

BACKGROUND

Projects in Information, Health, Medicine and Agriculture (PRISMA), is a Private Voluntary Organization legally constituted in Peru in April 1986, as a non-profit organization.

PRISMAS's objective is to work with the urban and rural poor population to foster their participation in and benefit from modern technology in the areas of medicine, public health, agriculture, and information systems. USAID/Peru has been working with PRISMA in various projects, among them are the following:

1. Child Survival Journal (Project N° 527-0316)

This grant agreement was signed on August 31, 1987, which provided US\$213,360 in USAID/Peru funding, and its Project Assistance Completion Date (PACD) was estimated to be September 30, 1989. Through subsequent amendments the PACD was extended to May 31, 1990.

The purpose of the project was to develop and distribute ten issues of high quality journals to 5,000 Peruvian physicians and other health professionals on Child Survival (CS) and Maternal and Child Health (MCH) related topics, in order to increase the participation of physicians and other health professionals in promoting and delivering appropriate CS and MCH services.

2. Integrated Food, Nutrition, and Child Survival (Project N° 527-0323)

This grant agreement was signed on September 30, 1988, which originally provided US\$388,200 in USAID/Peru funding, and its Project Assistance Completion Date (PACD) was estimated to be August 30, 1990. Through subsequent amendments the amount was increased to US\$750,000 and the PACD was extended to December 31, 1992.

The purpose of the project is to support PRISMA in its efforts to integrate the supplementary feeding program of the Ministry of Health (MOH) with activities from the program of Maternal and Child Health Care, and to allow a more effective distribution and targeting of food commodities than current or past government programs through the application of a risk analysis to identify program beneficiaries.

3. AIDS Education and Prevention (Project N° 527-0333)

This cooperative agreement was signed on September 29, 1989, which provided US\$500,000 in USAID/Peru funding, and its Project Assistance Completion Date was estimated to be September 30, 1992. The project includes technical assistance and other costs estimated in US\$135,600 to be procured directly by USAID/Peru.

The purpose of the project is to support the efforts of PRISMA to implement a program to provide technical assistance, training, commodities and local administrative and logistical support for the reduction of the sexual transmission of the Human Immunodeficiency Virus.

4. Private Voluntary Family Planning Services (Project N° 527-0335)

This cooperative agreement was signed on September 22, 1989, which originally provided US\$2,217,302 in USAID/Peru funding, and its Project Assistance Completion Date (PACD) was estimated to be September 21, 1990. Through subsequent amendments the amount was increased to US\$11,800,000 and the PACD was extended to September 30, 1993.

The project includes, among other minor activities, the institutional support to six Private Voluntary Agencies estimated in US\$2,363,000 managed directly by PRISMA, and purchases made by USAID/Peru of contraceptives and other commodities estimated in US\$7,500,000 which are managed by PRISMA.

The purpose of the project is to maximize the availability of family planning services for both women and men who wish to use them by strengthening the capacity and improving the performance of the private voluntary sector to deliver quality and efficient services, focusing on long-lasting contraceptive methods, and maintaining support for temporary methods and natural family planning methods.

AUDIT OBJECTIVES AND SCOPE

We were engaged to perform financial audits of the projects N°s. 527-0316, 527-0323, 527-0333 and 527-0335, activities managed by PRISMA for the following periods: the Child Survival Project (527-0316) is a close out financial audit from its beginning on August 31, 1987 to May 31, 1990; the Integrated Food, Nutrition and Child Survival Project (527-0323) is a financial audit from September 30, 1988 to September 30, 1991; the AIDS Education and Prevention Project (527-0333) is a financial audit from September 29, 1989 to September 30, 1991; and the Private Voluntary Planning Services Project (527-0335) is a financial audit from September 22, 1989 to September 30, 1991.

Our audit was performed in accordance with generally accepted auditing standards and the United States Comptroller General, "Government Auditing Standards" (1988 Revision) and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary to determine whether:

- o The consolidated fund accountability statement presents fairly, in all material respects, the financial situation of the projects activities managed by PRISMA as of September 30, 1991, and costs reimbursed by USAID/Peru during the period are allowable, allocable, and reasonable in accordance with the terms of the agreements, and applicable laws and regulations;

- o The internal control structure of PRISMA is adequate to manage the projects' operations; and
- o PRISMA complied with the terms of the agreements and applicable laws and regulations which may affect the projects' goals and incurred costs.

The scope of our work consisted of the following:

General

Become familiar with the projects by reviewing the following documents:

- a. The projects' agreements between USAID/Peru and PRISMA.
- b. Other documents related with the projects.
- c. The sub-agreements between USAID/Peru, PRISMA and other institutions, as applicable.
- d. Contracts and subcontracts with third parties.
- e. The budgets, project implementation letters, and written procedures approved by USAID/Peru, to manage the projects.
- f. Office of Management and Budget (OMB) Circular A-122 "Cost Principles for Nonprofit Organizations".
- g. Federal Acquisition Regulations (FAR), on costs principles and procedures for contracts issued after April 1, 1984.
- h. AID Acquisition Regulations (AIDAR), which provides AID supplemental procedures to the FAR.
- i. AID Handbook 13, Grants.
- j. AID Handbook 11, Chapter 4, Host Country Contracts.
- k. All projects' financial and progress reports; and PRISMA's charts of accounts, organizational charts, accounting system descriptions, procurement policies; and receipt, warehousing and distribution procedures of materials, as necessary to successfully complete the required work.

We were alert to situations or transactions that could be indicative of fraud, abuse and illegal expenditures and acts.

Fund accountability statement

1. Review direct and indirect costs reimbursed by USAID/Peru, identifying and quantifying any questionable costs which are not fully supported by adequate documentation, or which are not reasonable, allocable and allowable in accordance with the applicable terms of the agreement, the standard provisions and policies established.
2. Review the adequate recording of the costs in the accounting records, considering the nature and the activity of the projects. Reconcile direct costs reimbursed by USAID/Peru with the projects' accounting records.
3. Determine whether the projects' funding, provided by USAID/Peru, are appropriately recorded in PRISMA's accounting records, and periodically reconciled with the information provided by the banks.
4. Determine whether advances of funds are truly supported by adequate documentation including reconciliations of funds advanced, disbursed and available.
5. Review direct payments and purchases made by USAID/Peru on behalf of the projects to evaluate procedures used by PRISMA as applicable, to properly record and control the assets, commodities and technical assistance received.
6. Determine whether salary rates are reasonable for each position in Peru and salaries paid are supported by appropriate payroll records. Determine if overtime is charged to the projects and whether it is allowable under the terms of the agreements.

Internal control structure

1. Evaluate the policies and procedures followed by PRISMA to record, process, summarize, and report financial data consistently with the fund accountability statements and to ensure compliance with the terms of the agreements and applicable laws and regulations.
2. Evaluate if PRISMA's procurement system in regard to projects operations is adequate and determine if the system follows sound commercial practices and meets AID regulations.
3. Determine whether PRISMA maintains separate bank accounts for each project, and whether the controls on those bank accounts are adequate for the projects' purposes.
4. Determine whether PRISMA has established policies for planning and evaluating the projects' activities and accomplishments.
5. Evaluate if the input and output procedures for the electronic data processing (EDP) system are adequate.

Compliance with the terms of the agreements
and applicable laws and regulations

1. Identify the terms of the agreements, project implementation letters and pertinent laws and regulations, and determine which of those not observed could have a direct and material effect on the projects fund accountability statements.
2. Assess the internal control structure procedures in place to assure compliance with the terms of the agreements and applicable laws and regulations.
3. Determine if PRISMA has complied with agreement terms and applicable laws and regulations which provide reasonable assurance of detecting both intentional and unintentional instances of noncompliance that could have material effect on the fund accountability statements.
4. Determine if projects' funds have been expended for purposes not authorized in accordance with the terms of the agreements.
5. Determine if counterpart contributions and technical assistance were obtained in time and in accordance with the terms of the agreements and the projects needs.

RESULTS OF AUDIT

Consolidated Fund Accountability Statement

Our tests and application of auditing procedures considered by us appropriate in the circumstances lead us to believe that the consolidated cash receipts and disbursements of USAID/Peru projects Nos. 527-0316, 527-0323, 527-0333 and 527-0335 for the period from August 31, 1987 to September 30, 1991 are fairly stated, in all material respects. We found questioned costs amounting to US\$3,802 as well as unsupported costs amounting to US\$13,323.

Internal control structure

Our evaluation of the internal control structure of PRISMA disclosed certain reportable conditions which we did not consider to be material weaknesses. These are as follows:

1. The established written procedures for the authorization and recording of expenses were not adequately followed.

2. There is a lack of written evidence of the review made by the accountant of the project on the supporting documentation of the costs reported by the non governmental organizations.
3. The established procedures for the use of petty cash funds are not followed.
4. The terms of the agreement signed by PRISMA and USAID/Peru for the acquisition of fixed assets were not followed.

Compliance with agreements terms,
applicable laws and regulations

Our tests for compliance with agreement terms and applicable laws and regulations disclosed the following which we consider to be an instance of non-compliance:

- o The terms of the agreement in relation with the support documentation of the costs reported made by USAID/Peru are not followed.

MANAGEMENT COMMENTS:

In an exit conference held on May 21, 1992 with representatives of USAID/Peru, Arthur Andersen and Prisma officials expressed general agreement with the report contents and acceptance of the recommendations presented. Management comments, obtained in writing, are presented as Annex I.

AUDIT OF THE ACTIVITIES OF USAID/PERU'S PROJECTS

MANAGED BY PRISMA

AS OF SEPTEMBER 30, 1991

FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement which consolidates the following USAID/Peru projects managed by PRISMA: Child Survival Journal Project (N°527-0316) from August 31, 1987 to May 31, 1990; Integrated Food, Nutrition and Child Survival Project (N°527-0323) from September 30, 1988 to September 30, 1991; AIDS Education and Prevention Project (N°527-0333) from September 29, 1989 to September 30, 1991 and the Private Voluntary Planning Services Project (N°527-0335) from September 22, 1989 to September 30, 1991. Both the consolidated and the projects fund accountability statements are the responsibility of PRISMA. Our responsibility is to express an opinion on the consolidated fund accountability statement based on our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of the Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the fund accountability statement is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of chapter 3 of Government Auditing Standards since no such quality review program is offered by professional organizations in Peru. We believe that the effect of this departure from the financial audit requirements of the Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires the Arthur Andersen & Co. office in Peru to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

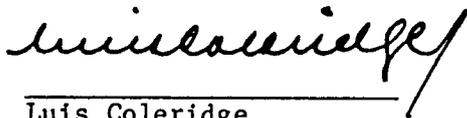
As described in Note 2, the consolidated fund accountability statement was prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

Regarding projects execution for USAID/Peru purposes, our audit tests disclosed costs for US\$17,125 which have been considered questionable for the reasons explained in Note 4 to the consolidated fund accountability statement.

In our opinion the consolidated fund accountability statement examined by us present fairly, in all material respects, the revenues and costs incurred and reimbursed of the USAID/Peru projects referred to in the first paragraph and managed by PRISMA for the period from August 31, 1987 to September 30, 1991, on the accounting basis described in Note 2.

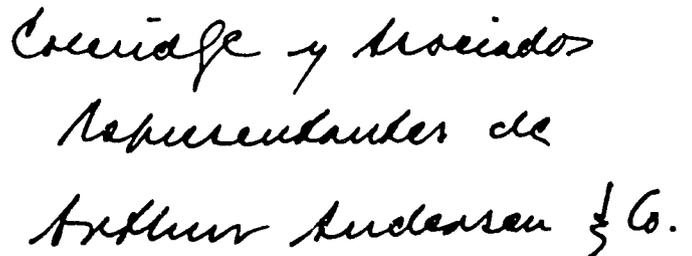
This report is intended solely for the use of PRISMA and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which upon acceptance by the Office of the Inspector General, is a matter of public record.

Countersigned by:



Luis Coleridge
C.P.C. Register No.1234

Lima, Perú,
March 13, 1992.


Cerrillo y Asociados
Representantes de
Arthur Andersen & Co.

- 11 -

USAID/PERU'S PROJECTS MANAGED BY PRISMA
(PROJECTS N° 527-0316, 527-0323, 527-0333 AND 527-0335)
CONSOLIDATED FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM AUGUST 31, 1987 TO SEPTEMBER 30, 1991
(In U. S. dollars)

	<u>Budget</u>	<u>Actual</u>	<u>Available</u>	Questionable costs (Note 4)	
				<u>Questioned</u>	<u>Unsupported</u>
INCOME:					
Funds provided by USAID/Peru	3,468,064	3,143,433	324,631		
DISBURSEMENTS:					
Institutional Support	1,399,302	1,368,027	31,275	562	10,768
Salaries staff	801,600	702,490	99,110		
Equipment, supplies, computers and accessories	323,900	182,456	141,444	3,202	
Administrative costs	249,129	214,164	34,965		1,581
Technical assistance	216,152	191,245	24,907		
Audit, evaluation and financial review	104,000	48,997	55,003		
Others	373,981	330,259	43,722	71	1,029
	-----	-----		-----	-----
Total disbursements	3,468,064	3,037,638		3,835	13,378
	=====	=====		=====	=====
BALANCE	-	105,795			

AUDIT OF THE USAID/PERU'S PROJECTS MANAGED BY PRISMA
FOR THE PERIOD FROM AUGUST 31, 1987 TO SEPTEMBER 30, 1991
NOTES TO THE CONSOLIDATED FUND ACCOUNTABILITY STATEMENT

1. Background

Project N°527-0316: Child Survival Journal

This grant agreement was signed on August 31, 1987, which provided US\$213,360 in USAID/Peru funding. Its Project Assistance Completion Date (PACD) was estimated to be September 30, 1989. Through subsequent amendments the PACD was extended to May 31, 1990.

The purpose of the project was to develop and distribute ten issues of high quality journals to 5,000 Peruvian physicians and other health professionals on Child Survival (CS) and Maternal and Child Health (MCH) related topics, in order to increase the participation of physicians and other health professionals in promoting and delivering appropriate CS and MCH services.

Project N°527-0323: Integrated Food, Nutrition and Child Survival

This grant agreement was signed on September 30, 1988, which originally provided US\$388,200 in USAID/Peru funding, and its Project Assistance Completion Date (PACD) was estimated to be August 30, 1990. Through subsequent amendments the amount was increased to US\$750,000 and the PACD was extended to December 31, 1992.

The purpose of the project is to support PRISMA in its efforts to integrate the Supplementary Feeding Program of the Ministry of Health with activities from the program of Maternal and Child Health Care, and to allow a more effective distribution and targeting of food commodities than current or past government programs through the application of a risk analysis to identify program beneficiaries.

Project N°527-0333: AIDS Education and Prevention

This cooperative agreement was signed on September 29, 1989, which provided US\$500,000 in USAID/Peru funding and its Project Assistance Completion Date was estimated to be September 30, 1992. The project includes technical assistance and other costs estimated in US\$135,600 to be procured directly by USAID/Peru.

The purpose of the project is to support PRISMA to implement a program to provide technical assistance, training, commodities and local administrative and logistic support for the reduction of the sexual transmission of the Human Immunodeficiency Virus.

Project N°527-0335: Private Voluntary Family Planning Services

This cooperative agreement was signed on September 22, 1989, which originally provided US\$2,217,302 in USAID/Peru funding, and its Project Assistance Completion Date (PACD) was estimated to be September 21, 1990. Through subsequent amendments the amount was increased to US\$11,800,000 and the PACD was extended to September 30, 1993.

The purpose of the project is to maximize the availability of family planning services to women and men who wish to use them by strengthening the capacity and improving the performance of the private voluntary sector to deliver quality and efficient services, focusing on long-lasting contraceptive methods, and maintaining support for temporary supply and natural family planning methods.

2. Significant Accounting Practices

- (a) The Fund Accountability Statement is prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting, other than generally accepted accounting principles.
- (b) Local currency costs are incurred in "nuevos soles" and the procedure for translating them into U. S. dollars is based on the oldest advance of funds pending liquidation. The U. S. dollar equivalent is determined by USAID/Peru when the remittance of funds is granted to the project.
- (c) Expenditures are related to the disbursements of funds provided by USAID/Peru for the development of the projects.

3. Funds Provided

The following is a detail of the funds provided by USAID/Peru to PRISMA for the carrying out of the projects.

<u>For the year ended on</u>	<u>Expressed in U.S. dollars</u>	
	<u>Local currency</u>	<u>Foreign currency</u>
September 30, 1988	83,824	2,400
September 30, 1989	254,076	176,875
September 30, 1990	1,187,734	133,496
September 30, 1991	1,154,376	150,652
	-----	-----
	2,680,010	463,423
	=====	=====

4. Questionable Costs (Questioned and Unsupported)

Questioned costs are those costs not allowable under the respective Agreement terms. Unsupported costs are those costs not fully supported by adequate documentation and/or not located in PRISMA files.

Project N° 527-0316: The questionable costs refer mainly to the acquisition of computer equipment in which the control procedures established by PRISMA were not followed (PRISMA must ask for different quotations and make a selection of the one that offers the best price, quality and other factors). The amount involved is US\$3,202.

Project N° 527-0323: The questionable costs refer mainly to unsupported costs which are liquidated expenses whose documentation is not located in the PRISMA files. The amount involved is US\$2,593, as explained:

<u>Document N°</u>	<u>Description</u>	<u>U.S.\$</u>	<u>Reason for questioning</u>
Voucher 1083	No invoice to support the expenses related to the rent of PRISMA'S offices	519.03	1
Voucher 1164	No fiscal certificate of payment attached to the invoice	1,062.35	1
Voucher 0667	The sales tax is reported as costs eligible for reimbursement	37.80	2
Check 13497491	No invoice to support the expenses related to the rent of a car and the voucher has not been signed by the beneficiary	974.03	1

Reasons for questioning Reference

- 1 Lack of supporting documentation
- 2 Questioned costs

Project N° 527-0335: The questionable costs refer mainly to unsupported costs which are liquidated expenses whose documentation is not located in the PRISMA files. The amount involved is US\$11,330.

<u>Document N°</u>	<u>Description</u>	<u>U.S.\$</u>	<u>Reason for questioning</u>
January 1991	Extraordinary payroll payment in January 1991, there is no receipt signed by the worker as evidence of having been paid	1,413.86	1
Vouchers 291, 300, 311 (June 1990); 388, 392, 397 (July 1990); 455, 476, 477 (August 1990) 565 (September 1990)	Vouchers with no supporting documentation (operating expenses)	1,684.93	1
Voucher P-06-06	Offices's rent (lack of invoice May 1990)	281.31	1
Voucher P-04-07	The invoice enclosed makes no reference to PROFAMILIA (July 1990)	45.50	2
Voucher P-13-08	The supporting document enclosed is a photocopy of the invoice (August 1990)	2,005.47	1
August and September 1990, September 1991	Payment notes are not signed by the employees as evidence of having received their salaries	3,986.35	1
September 1991	ATLF (OPG) There is no payment note	332.50	2

<u>Document N°</u>	<u>Description</u>	<u>Amount</u>	<u>Reason for questioning</u>
May and August 1991	ATLF (OPG): Expenses with no supporting documents:		
	- Seminar (August 1991)	268.00	1
	- Office maintenance (August 1991)	5.26	1
	- Salaries advance payment (May 91)	99.58	1
	- Transport (May 1991)	21.48	2
Voucher 1309091	CENPROF (OPG) - There is no invoice enclosed to the voucher	6.06	1
Voucher 1309067	The voucher related to transport has not been authorized by the Administrative Director (September 1991)	75.83	2
September 1991	There is no note or invoice (laundry)	17.53	1
Voucher 01630	INPPARES (a private voluntary organization that is supported by Prisma): Expenses of September 1990 - There is no supporting documentation	1,000.22	1
July 1991	INPPARES: There is a difference between the amount recorded in the payroll and the amount paid to the worker José Mogollón del Rosario (July 1991)	48.68	2
September 1991	INPPARES: There is a difference between the amount recorded in the expenses report and the worker's salary that appears in the payment note	37.37	2

Reasons for questioning reference

- 1 Lack of supporting documentation
- 2 Questioned costs

AUDIT OF THE ACTIVITIES OF USAID/PERU'S PROJECTS

MANAGED BY PRISMA

AS OF SEPTEMBER 30, 1991

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement which consolidates the following USAID/Peru projects managed by PRISMA: Child Survival Project (527-0316) from August 31, 1987 to May 31, 1990; Integrated Food, Nutrition and Child Survival Project (527-0323) from September 30, 1988 to September 30, 1991; AIDS Education and Prevention Project (527-0333) from September 29, 1989 to September 30, 1991 and Private Voluntary Planning Services Project (527-0335) from September 22, 1989 to September 30, 1991, for which we have issued our report thereon dated March 13, 1992.

Except for not conducting an external quality control review by an unaffiliated audit organization as described further in our opinion on the consolidated fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

In planning and performing our audit of the consolidated fund accountability statement for the year ended September 30, 1991, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

Management of PRISMA is responsible for establishing and maintaining an internal control structure to manage the project's operations. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide Management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with Management authorization and properly recorded to permit the preparation of the the consolidated fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future

periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operations of policies and procedures may deteriorate.

For the purpose of this report we have classified the significant internal control structure policies and procedures in the following categories:

- Accounting system
- Procurement system in regard to projects' operation
- Policies for the control of the projects' bank accounts
- Policies for planning and evaluating projects' activities and accomplishments
- Controls of the electronic data processing (EDP) system

For all of the internal control structure categories listed above, we obtained an understanding of the design of the relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we considered 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 in the internal control structure, that, in our judgement, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statements. The conditions noted are described in more detail in findings 1 to 4 in the following pages and are summarized as follows:

- o The established written procedures for the authorization and recording of expenses were not adequately followed.
- o There is a lack of written evidence of the review made by the accountant of the project on the supporting documentation of the costs reported by the non governmental organization.
- o The established procedures for the use of petty cash funds are not followed.
- o The terms of the agreement signed by PRISMA and USAID/Peru for the acquisition of fixed assets were not followed.

A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be

material in relation to the fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the control structure that might be reportable conditions and, accordingly, would not necessary disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operations that we have reported to PRISMA in a separate letter dated March 16, 1992.

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

Countersigned by:



Luis Coleridge
C.P.C. Register No.1234

Lima, Perú,
March 13, 1992.

*Coleridge y Asociados
Representantes de
Arthur Andersen & Co.*

INTERNAL CONTROL STRUCTURE FINDINGS

1. **Control procedures for the authorization and recording of expenses were not adequately followed**

Condition

Our testing of control procedures disclosed the following vouchers which show no evidence of review by the Accountant or the Administrative Director, nor written evidence of having been processed by the microcomputer.

<u>Project number</u>	<u>Voucher number</u>	<u>Month</u>
527-0316	787,79, 681	September 1987, May 1990
527-0323	1327	September 1991
527-0333	0827	September 1991
527-0335	1717, 1664, 1653, 1757	September 1991

Criteria

PRISMA has established written procedures for the authorization and registration of expenses.

Cause

The established procedures are not accomplished as a result of: the overloaded administrative activities; there is no independent supervisor to assure the procedure is followed, and sometimes the supporting documents are not received in time.

Effect

Delay and accumulation of information in the accounting process. The lack of evidence of review of the accounting vouchers could result in the recording and reporting of non authorized or questionable transactions. In addition, as there is no written evidence left on the vouchers processed in the microcomputer, there could be information that is either not processed or duplicated. Nevertheless, during our review no such situation was found.

Recommendation

We recommend PRISMA to make the control procedures more efficient through the decentralization of the authorizations required. This could be done by establishing levels of approval. The personnel in charge should be

aware of the importance of leaving evidence of the work done in the accounting vouchers as well as in the input to the electronic data processing (EDP) system.

2. Lack of written evidence of the visits to the non governmental organizations' (ONG)

Condition

There is no written evidence left of the review made by the accountant of the private voluntary planning services project on the supporting documentation of the costs reported by the ONG. For example, in our review of the expenses report of APROSAMI (an OPG participating in the Private Voluntary Family Planning Services) for June, July, August and September 1990, we noticed that they were not signed by PRISMA in evidence of review.

Criteria

Good internal control procedures establish that all work done by the association's personnel should be adequately evidenced in working papers.

Cause

PRISMA has not defined a procedure for the planning or execution of documentation of the visits made to the ONGs, nor for the review of the work done.

Effect

As there is no written evidence of the work done, no adequate supervision can be carried out.

Recommendation

We recommend PRISMA to establish a system for organizing and recording the work done. It should clearly identify the nature, scope and opportunity of the work to be done and clearly state the person to be in charge of its supervision.

3. Lack of indication of the project to which the petty cash funds are delivered

Condition

During our review of the petty cash counts we have observed that, in some cases, there is no evidence left of the disposition of petty cash funds.

Criteria

According to PRISMA's procedures when petty cash funds are used, a disbursement voucher should be filled, indicating the project to which the funds are allocated.

Cause

PRISMA has petty cash for 3 projects. All the rest borrow funds from these 3 projects and then give the money back.

Effect

The possibility of making errors in the expense allocation is due to the difficult of identifying the project to which the cash funds have been remitted.

Recommendation

We recommend PRISMA to establish a procedure for using petty cash for each project. This would improve the control and record of the funds used by each project.

4. Fixed assets procurement procedures were not adequate

Condition

During our review of the computer equipment acquisitions for the Child Survival Project, we have observed that in the supporting documents of an acquisition only two quotations were obtained and these were from two related companies.

Criteria

According to the agreement signed by PRISMA and USAID/Peru, PRISMA must ask for different quotations and make a selection of the one that offers the best price, quality and other factors.

Cause

Lack of adequate internal control procedures to assure that the terms of the agreement in relation to the acquisition of fixed assets are being accomplished.

Effect

As there are no more market offerings, no evaluation can be made on the quotations in relation to quantity, quality, process and opportunity of delivering. Thus, US\$3,202 of equipment and supplies are being questioned in the Consolidated Fund Accountability Statement.

Recommendation

We recommend PRISMA to establish and follow fixed assets procurement procedures. Thus, 3 quotations of independent companies must be obtained and the acquisition should be approved by the Directive Council.

AUDIT OF THE ACTIVITIES OF USAID/PERU'S PROJECTS

MANAGED BY PRISMA

AS OF SEPTEMBER 30, 1991

COMPLIANCE WITH THE TERMS OF THE AGREEMENTS

AND APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement which consolidates the following USAID/Peru projects managed by PRISMA: Child Survival Project (527-0316) from August 31, 1987 to May 31, 1990; Integrated Food, Nutrition and Child Survival Project (527-0323) from September 30, 1988 to September 30, 1991; AIDS Education and Prevention Project (527-0333) from September 29, 1989 to September 30, 1991; Private Voluntary Planning Services Project (527-0335) from September 22, 1989 to September 30, 1991, for which we have issued our report thereon dated March 13, 1992.

Except for not conducting an external quality review by an unaffiliated audit organization as described further in the opinion on the consolidated fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of the Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to PRISMA is the responsibility of PRISMA's management. As part of obtaining reasonable assurance about whether the consolidated fund accountability statement is free of material misstatement, we performed our tests of PRISMA's compliance with certain provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of non compliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts or grants that cause us to conclude that the aggregation of the misstatements

resulting from these failures or violations is material to the fund accountability statements. The results of our tests of compliance disclose the instances of non-compliance described in more detail in finding 1 in the following pages and is summarized as follows:

- o The terms of the agreement in relation to the support documentation costs reported by USAID/Peru are not followed.

We considered this instance of non-compliance in forming our opinion on whether the above consolidated fund accountability statement is presented fairly, in all material respects, in conformity with the accounting principles described in Note 2 to the fund accountability statement and this report does not affect our report dated March 13, 1992 and those fund accountability statements.

Except as described above the result of our tests of compliance indicate that, with respect to items tested, PRISMA complied in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that PRISMA had not complied, in all material respects with those provisions.

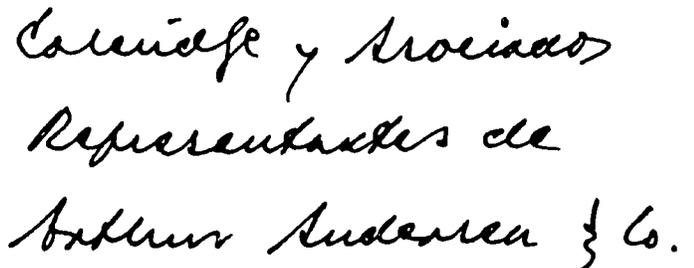
This report is intended solely for the information and use of PRISMA and the United States Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Countersigned by:



Luis Coleridge
C.P.C. Register No.1234

Lima, Perú,
March 13, 1992.


Coleridge y Asociados
Representantes de
Arthur Andersen & Co.

COMPLIANCE WITH THE TERMS OF THE AGREEMENTS

AND APPLICABLE LAWS AND REGULATIONS

FINDING

1. Lack of expense support documentation

Condition

During our review of the project expenses we observed that some vouchers did not have the related supporting document or, if it did, it was not properly documented so as to validate the expense.

Criteria

According to the agreement signed by PRISMA and USAID/Peru, all the costs reimbursed by USAID/Peru must have valid supporting documentation (invoices and/or shipping bill received to the name of PRISMA, stamped in evidence of payment or signed in evidence of having received the money).

Cause

The personnel in charge of voucher processing do not receive the supporting documentation in time.

Effect

The expenses reported to USAID/Peru are not supported by an adequate or valid documentation. This results in questionable costs of:

<u>Project number</u>	<u>Questioned</u>	<u>Unsupported</u>
527-0316	3202 *	-
527-0323	38	2,555
527-0335	562	10,768
	-----	-----
	3,802	13,323
	=====	=====

* This amount has also been included in finding 4 in the internal control section.

Recommendation

We recommend PRISMA to provide adequate and sufficient documentation to support that goods and services for US\$3,802 (questioned cost) and US\$13,323 (unsupported costs) as indicated in this finding.

LIST OF RECOMMENDATIONS

INTERNAL CONTROL STRUCTURE

1. Control procedures for the authorization and record of expenses were not adequately followed

We recommend PRISMA to perform control procedures more efficient or through the decentralization of the authorizations required. This could be done by establishing levels of approval. The personnel in charge should be aware of the importance of leaving evidence of the work done in the accounting vouchers as well as in the input to the electronic data processing (EDP) system.

2. Lack of written evidence of the visits to the non governmental organization (ONG)

We recommend PRISMA to establish a system for organizing and recording the work done. It should clearly identify the nature, scope and opportunity of the work to be done and clearly state the person to be in charge of its supervision.

3. Lack of indication of the project to which the petty cash funds are delivered

We recommend PRISMA to establish a procedure for using of petty cash for each project. This would improve the control and record of the funds used by each project.

4. Fixed assets procurement procedures were not adequate

We recommend PRISMA to establish and follow fixed assets procurement procedures. Thus, 3 quotations of independent companies must be obtained and the acquisition should be approved by the Directive Council.

COMPLIANCE WITH THE TERMS OF THE AGREEMENTS
AND APPLICABLE LAWS AND REGULATIONS

5. Lack of expense support documentation

We recommend PRISMA to provide adequate an sufficient documentation to support that goods and services for US\$3,802 (questioned costs) and US\$13,323 (unsupported costs) as indicated in this finding.

CHILD SURVIVAL JOURNALPROJECT N° 527-0316FUND ACCOUNTABILITY STATEMENTFOR THE PERIOD FROM AUGUST 31, 1987 TO MAY 31, 1990

(In U. S. dollars)

	<u>Budget</u>	<u>Actual</u>	<u>Available</u>	<u>Questionable cost</u>	
				<u>Questioned</u>	<u>Unsupported</u>
INCOME:					
Funds provided by USAID/Peru	213,360	213,360			
DISBURSEMENTS:					
Salaries staff	7,200	8,521	(1,321)		
Salaries profes- sional	48,400	55,003	(6,603)		
Consultants	10,000	11,983	(1,983)		
Equipment and supplies	8,800	9,496	(696)	3,202	
Printing	98,400	82,510	15,890		
Workshop & xerox	5,000	4,674	326		
Administrative costs	35,560	41,173	(5,613)		
Total disbursements	<u>213,360</u> =====	<u>213,360</u> =====		<u>3,202</u> =====	
BALANCE	-	-			

INTEGRATED FOOD, NUTRITION AND CHILD SURVIVALPROJECT N° 527-0323FUND ACCOUNTABILITY STATEMENTFOR THE PERIOD FROM SEPTEMBER 30, 1988 TO SEPTEMBER 30, 1991

(In U. S. dollars)

	<u>Budget</u>	<u>Actual</u>	<u>Available</u>	<u>Questionable cost</u>	
				<u>Questioned</u>	<u>Unsupported</u>
INCOME:					
Funds provided by USAID/Peru	711,700	569,808			
DISBURSEMENTS:					
Salaries	389,000	310,550	78,450		
Travel and transport	22,300	22,168	132		974
Per diems	26,400	10,740	15,660		
Equipment	25,000	22,057	2,943		
Seminars	5,400	6,298	(898)		
Nutritional rehabilitation	14,000	16,491	(2,491)	38	
Computers and accessories	73,100	73,100	-		
Vehicle	18,000	18,000	-		
Evaluation and financial review	15,000	3,510	11,490		
PRISMA adminis- tration	123,500	85,406	38,094		1,581
Total disbursements	<u>711,700</u>	<u>568,320</u>	<u>143,380</u>	<u>38</u>	<u>2,555</u>
BALANCE	-	1,488			

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AIDS EDUCATION AND PREVENTIONPROJECT N° 527-0333FUND ACCOUNTABILITY STATEMENTFOR THE PERIOD FROM SEPTEMBER 29, 1989 TO SEPTEMBER 30, 1991

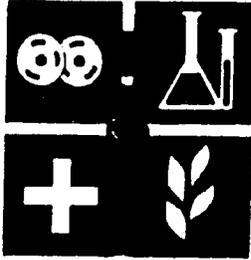
(In U. S. dollars)

	<u>Budget</u>	<u>Actual</u>	<u>Available</u>	<u>Questionable cost</u>	
				<u>Questioned</u>	<u>Unsupported</u>
INCOME:					
Funds provided by USAID/Peru	253,702	239,268			
DISBURSEMENTS:					
Training	5,429	5,091	338		
Technical assistance	31,152	27,899	3,253		
Commodities	48,929	39,517	9,412		
Other costs	130,123	124,770	5,353		
Administrative costs	22,269	19,632	2,637		
Indirect adminis- trative costs	10,800	11,528	(728)		
Audit and finan- cial review	5,000	-	5,000		
Total disbursements	<u>253,702</u> =====	<u>228,437</u> =====	<u>25,265</u> =====		
BALANCE	-	10,831			

PRIVATE VOLUNTARY FAMILY PLANNING SERVICESPROJECT N° 527-0335FUND ACCOUNTABILITY STATEMENTFOR THE PERIOD FROM SEPTEMBER 22, 1989 TO SEPTEMBER 30, 1991

(In U. S. dollars)

	<u>Budget</u>	<u>Actual</u>	<u>Available</u>	<u>Questionable cost</u>	
				<u>Questioned</u>	<u>Unsupported</u>
INCOME:					
Funds provided by USAID/Peru	2,289,302	2,120,997			
DISBURSEMENTS:					
Institutional support	1,399,302	1,368,027	31,275	562	10,768
Technical assis- tance	185,000	163,346	21,654		
Supplies	217,000	77,803	139,197		
Project management	347,000	316,433	30,567		
Audit and financial review	84,000	45,487	38,513		
Indirect adminis- trative costs	57,000	56,425	575		
Total disbursements	<u>2,289,302</u> =====	<u>2,027,521</u> =====	<u>261,781</u> =====	<u>562</u> ===	<u>10,768</u> =====
BALANCE	-	93,476			

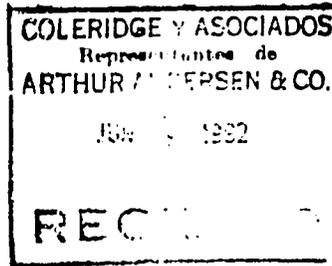


PRISMA

Proyectos en
Informática
Salud
Medicina y
Agricultura.

San Borja, 08 de junio de 1992
PR1230.92

Señores
ARTHUR ANDERSEN & Co.
Av. Arequipa No. 330
Lima.-



At.: Sr. Jorge Pérez

De nuestra consideración:

Nos referimos al Informe de Auditoría de las actividades de los proyectos de USAID/PERU administrados por la Asociación Benéfica PRISMA, al 30 de setiembre de 1992 acorde a lo siguiente:

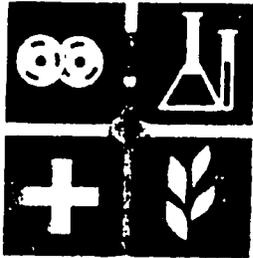
- Proyecto No. 527-0316 "Periódicos sobre Supervivencia Infantil" 31-06-87 al 31-05-90
- Proyecto No. 527-0323 "Alimentos, Nutrición y Supervivencia Infantil" 30-09-88 al 30-09-91.
- Proyecto No. 527-0333 "SIDA Educación y Prevención" 29-09-89 al 30-09-91.
- Proyecto No. 527-0335 "Servicios Privados de Planificación Familiar Voluntarios" 22-09-89 al 30-09-91.

Sobre el particular, deseamos exporesarles nuestra aceptación y conformidad en torno a los alcances y recomendaciones vertidas en su Informe, de lo cual hemos tomado debida nota para su implementación y subsanación.

No obstante ello, deseamos resaltar los siguientes aspectos:

- 1.- Estado de Rendición de Cuentas Consolidado.- En relación a este punto, informamos a ustedes que, luego de examinar nuestros archivos, hemos localizado la documentación sustentatoria que respalda, en su mayoría, los desembolsos cuestionados que fueron materia de observación, los mismos que se encuentran a su total disposición.
- 2.- Estructura del Control Interno.- Al respecto, nuestra Dirección Ejecutiva y la Dirección Administrativa, han procedido a coordinar con sus diferentes áreas, la implementación y puesta en marcha de las recomendaciones, con el fin de fortalecer los controles vigentes y minimizar los riesgos de incurrir en futuras omisiones.

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PRISMA

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Página 2

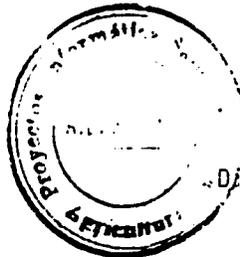
Dicha implementación se verificará con énfasis en la descentralización de aprobaciones a través de la identificación de niveles de autorización y el establecimiento de un procedimiento alternativo para el manejo de caja chica que permita una clara identificación del proyecto al cual se le asigne su uso.

Cabe anotar, que durante el examen practicado por ustedes muchas de las observaciones habían sido totalmente subsanadas en fechas posteriores al hallazgo, toda vez que desde el año 1987 los procedimientos que mantiene nuestra Asociación, fueron materia de modificaciones y mejoras; en consecuencia, algunas de las recomendaciones sugeridas por ustedes constituyen parte importante de nuestros métodos y procedimientos vigentes, tales como el proceso de adquisición de activos fijos y lo relativo a la documentación que evidencia las visitas practicadas a los Organismos no Gubernamentales (ONGS), entre otros.

- 3.- Cumplimiento con los términos de los acuerdos, leyes y regulaciones aplicables.- No obstante, el riguroso y estricto cumplimiento que nuestra Asociación Benéfica Prisma, mantiene respecto a los acuerdos y regulaciones de los convenios que suscribe, y al margen de lo mencionado sobre esta observación en acapite No. 1 de la presente comunicación, se han impartido instrucciones al personal responsable, a fin de revisar minuciosa y cuidadosamente la documentación que debe respaldar los gastos y egresos a fin de que esta sea la adecuada y suficiente.

Agradeciéndoles por sus valiosas apreciaciones que nos permiten mejorar la calidad de nuestro esfuerzo para poder cumplir con los fines y objetivos Institucionales, quedamos de ustedes.

Muy atentamente,



J. Flores Pristalé
José Flores Pristalé
Director Administrativo

JFP/mec

35

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