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**Regional Inspector General for Audit  
Singapore**

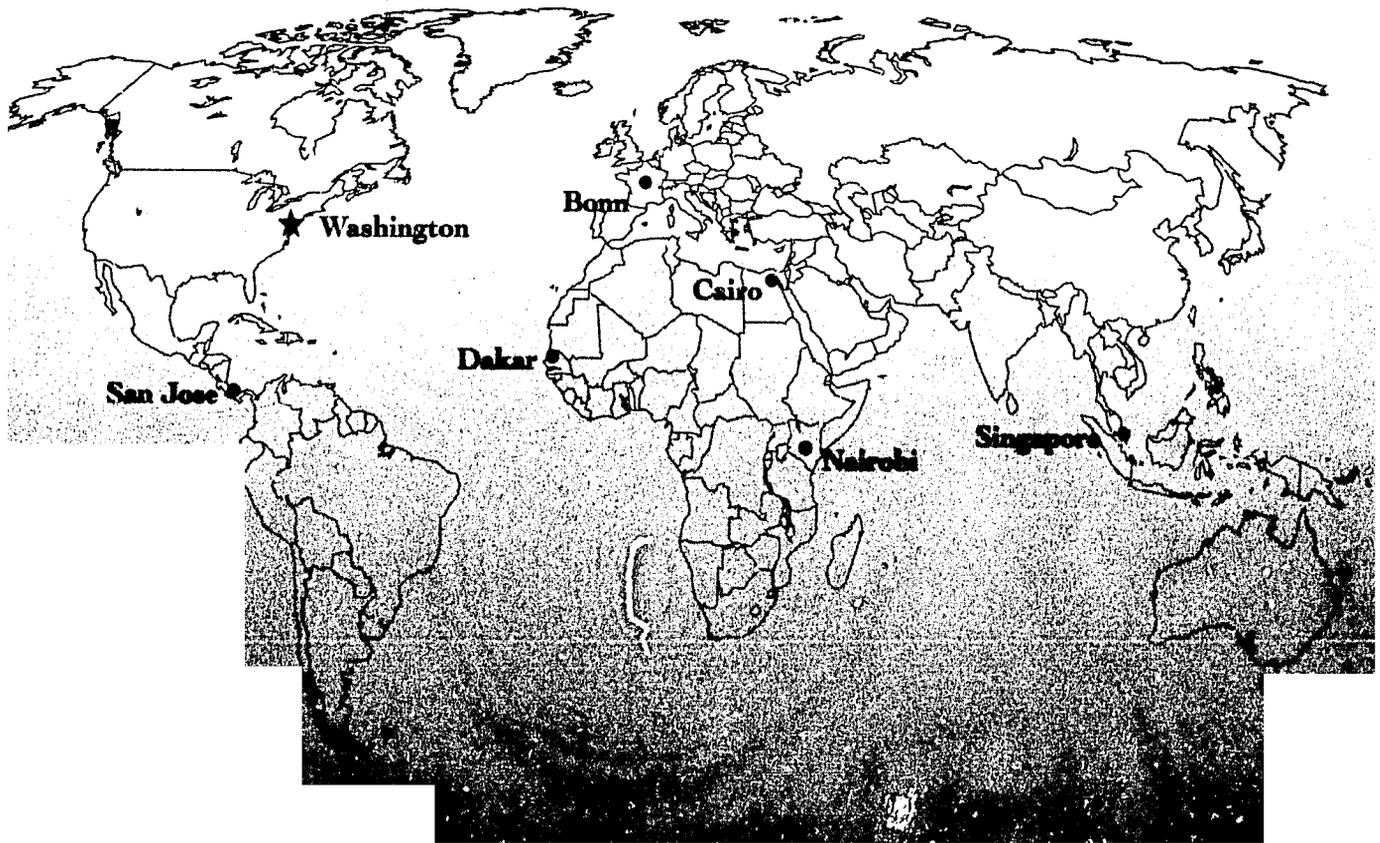
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**AUDIT OF  
USAID/CAMBODIA'S GRANT  
TO THE ASIA FOUNDATION  
GRANT NO. 442-0111-G-00-2382-00**

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**Audit Report No. 5-442-95-014-N  
May 17, 1995**



**INSPECTOR  
GENERAL**

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



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

May 17, 1995

TO: Joseph B. Goodwin, Mission Director, USAID/Cambodia

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

SUBJECT: Audit of USAID/Cambodia's Grant to The Asia Foundation (TAF)  
Report No. 5-442-95-014-N

Enclosed are five copies of the subject audit report (prepared by the accounting firm, Coopers & Lybrand, Thailand) for your action. The audit covered the period from September 30, 1992 to September 30, 1993. During these periods, TAF reported that it received \$2,000,000 and spent \$1,847,421. The background information on the contract and the project is presented on pages 1 to 3 of the report.

The audit objectives were to:

- Determine whether the TAF Fund Accountability Statement presents fairly the expenditures incurred under the contract;
- Report on the TAF system of internal controls; and
- Report on the TAF compliance with applicable laws, regulations, and terms of the contract agreement.

The audit report concluded that:

- The Fund Accountability Statement presents fairly, in all material respects, the expenditures incurred under the contract;
- TAF's internal controls had one reportable condition, which the auditor's considered to be a material weakness; and
- Except for three instances of noncompliance, TAF operations complied in all material respects with applicable laws, regulations, and terms of the contract agreement. The auditors considered these to be material instances of non-compliance.

*R*

We are not making any recommendations to be included in the Inspector General's recommendation follow-up system, however, USAID/Cambodia needs to ensure that necessary action is taken to correct the problems noted in this audit.

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

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

Attachment: a/s

**FINANCIAL AUDIT OF  
THE ASIA FOUNDATION  
PERTAINING TO ITS GRANT WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN CAMBODIA**

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Performed and Prepared

by

Coopers & Lybrand (TH) Co. Ltd  
Thailand

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**FINANCIAL AUDIT OF  
THE ASIA FOUNDATION  
PERTAINING TO ITS GRANT WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN CAMBODIA**

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**INDEPENDENT AUDITORS' REPORT**

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Mr Richard Thabet  
Regional Inspector General  
for Audit, Singapore  
US Agency for International Development  
302 Orchard Road  
#03-01 Tong Building  
Singapore 0923

15 September 1994

Dear Mr Thabet,

**Re: The Asia Foundation - Democracy and Law In Cambodia Project  
Grant No. 442-0111-G-00-2382-00**

This report presents the results of our audit of The Asia Foundation ("TAF") pertaining to its Grant with the United States Agency for International Development, Cambodia ("USAID/C"), in respect of the period September 30, 1992 to September 30, 1993. Funding under this grant continues beyond our period of review.

The Asia Foundation - The Institution and the Project

The Asia Foundation ("TAF") was founded in 1954 as a private American grant making organisation specialising in promoting US - Asian understanding and co-operation and encouraging Asian-Pacific efforts to:

- strengthen representative government;
- build effective legal systems;
- foster market economies;
- increase accountability in the public and private sectors;
- develop independent and responsible media; and
- encourage broad participation in public life.

Mr Richard Thabet  
Regional Inspector General for Audit, Singapore  
US Agency for International Development  
Singapore

TAF carries out its aims through the provision of grants of money, materials or services to government agencies and non-governmental organisations to support locally designed and initiated projects; and by the arrangement of project-related professional training and study trips to the United States, Europe and within Asia.

Responsibility for TAF's policy direction rests with a Board of Trustees. The Trustees are respected individuals either in the academic field or in business and commerce. Daily management of TAF is by an executive team led by the President, William Fuller, in the United States, and by individual country Representatives resident in countries throughout the Asian Pacific.

TAF is funded by contributions from the public and private sectors in the United States and Asian countries. Funding sources include general and restricted support grants from the United States Government, corporations, foundations, trusts and individuals. Contributions may comprise cash contributions or contributions in kind in the form of books, services and the provision of other commodities.

The United States Government is the primary funding source for TAF, providing 91% of total support and revenue for TAF's fiscal year ended 30 September 1993. The United States Government provides both restricted and unrestricted funding, and one such source of restricted funding is USAID/Cambodia.

On 30 September 1992 TAF was awarded a grant by USAID/C to provide support for TAF's "Democracy and Law in Cambodia" Project. USAID/C obligated an amount of \$2,000,000 being their share of cost for the first fiscal year of the project. The Grant Agreement provides for USAID/C contribution of \$11,748,050 over the four year life of the project. TAF is to share the cost of the project through its own cash and in-kind contributions which will total \$4,220,000 over the project life.

The underlying objective of the project is to promote the democratic initiatives and forces that emerged in Cambodia following the Agreement on a Comprehensive Political Settlement of the Cambodia Conflict, known as the Paris Agreement, on 23 October 1991.

Under the Agreement, the Supreme National Council of Cambodia committed to work with the United Nations to establish the foundations for a liberal, market-oriented democracy, including national elections for a constituent assembly, enactment of a new constitution and the formation of a new government.

Mr Richard Thabet  
Regional Inspector General for Audit, Singapore  
US Agency for International Development  
Singapore

To promote these democratic initiatives, TAF developed a four year program, "The Democracy and Law in Cambodia" Program which contained the following programmatic goals:

- **The Legal and Judicial Reform Program**

This program is designed to strengthen law and legal education and judicial training in Cambodia;

- **The Democratic Values and Practices Program**

This program is designed to instill democratic values and practices that will support the development of an effective Cambodian democracy; and

- **The Public Interest Non-Governmental Organisations (NGOs) Program**

This program was designed to support the development of NGOs that can sustain democratic values and practices, the rule of law in the long run and respect for human rights.

TAF seeks to accomplish these program goals by the following means:

- the provision of consultants, legal educators, trainers, translators and legal researchers;
- the creation of a library and clearing house of information, expertise, books and reference materials;
- conducting seminars, lectures and training courses; and
- co-ordination and support of training and observation tours.

Administration and day to day control of program activities is performed by the field office in Phnom Penh under the control of a resident Representative. General policy guidance and support is provided by the head office in San Francisco. Initially the Phnom Penh office was set up as a project office under the managerial control of the Representative resident in TAF's existing field office in Bangkok, Thailand. In August 1993 the status of the Phnom Penh office was upgraded to a field office and management responsibility was vested in a resident Representative.

Mr Richard Thabet  
Regional Inspector General for Audit, Singapore  
US Agency for International Development  
Singapore

Project activities are performed by TAF personnel, both regular hires and contract employees and by the granting of sub-grants to Cambodian and overseas organisations. Project activities are performed both within Cambodia and overseas, overseas activities primarily comprising participant sponsored attendance at courses and seminars.

### **Audit Objectives and Scope of Work**

We have conducted a financial audit of TAF's Fund Accountability Statement as it relates to the Grant for the period September 30, 1992 to September 30, 1993. The Fund Accountability Statement comprises the Receipts and Expenditure Statement for the Grant for the period, and the notes thereon. The results of our audit are reflected in the accompanying Independent Auditors' Report on the:

- (a) Fund Accountability Statement of the Grant;
- (b) Systems of Internal Control; and
- (c) Compliance with Agreement Terms, Applicable Laws and Regulations.

The objectives of our work were to:

- (a) Determine whether the Fund Accountability Statement of the Grant to TAF presents fairly the receipts and expenditures of TAF as they pertain to Grant No. 442-0111-G-00-2382-00 for the period September 30, 1992 to September 30, 1993 in accordance with the terms of the Grant Agreement;
- (b) Report on TAF's System of internal controls;
- (c) Report on TAF's compliance with applicable laws, regulations, agreement terms, binding policies and procedures;

Our audit, studies and evaluations were conducted in accordance with generally accepted US Government auditing standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and, accordingly, included such tests and reviews as we considered appropriate in order to satisfy our objectives.

The scope of our work included the following general procedures:

- (a) Holding meetings with USAID/C, TAF, USAID Thailand and USAID Regional Inspector General for Audit/Singapore ("RIG/A/S") officials;

Mr Richard Thabet  
Regional Inspector General for Audit, Singapore  
US Agency for International Development  
Singapore

**Audit objectives and Scope of Work** (cont)

- (b) Reviewing the Grant Agreement and appropriate amendments, OMB circulars, AID handbook regulations, prior period audit reports on TAF's financial statements, correspondence and minutes of meetings between USAID/C and TAF, as well as project progress reports maintained by TAF;
- (c) Obtaining an understanding of the accounting, administrative and internal control systems of TAF using questionnaires, interviews, flowcharts and narrative descriptions;
- (d) Devising and performing appropriate tests on the transactions and balances recorded in the Fund Accountability Statement;
- (e) Designing appropriate audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the results of our audit. We were also aware of the possibility of illegal acts that could have an indirect and material effect on the results of our audit;
- (f) Testing the effectiveness of administrative controls applied by TAF's management to ensure compliance with applicable laws, regulations and agreement terms;

Audit work was performed at TAF's offices in Bangkok, Thailand and Phnom Penh, Cambodia. Costs incurred directly by TAF's home office in San Francisco were specifically excluded from the scope of our audit work.

Mr Richard Thabet  
Regional Inspector General for Audit, Singapore  
US Agency for International Development  
Singapore

**Audit Results**

(a) **Opinion on the Fund Accountability Statement**

During the period September 30, 1992 to September 30, 1993 the Asia Foundation did not maintain proper accounting records on a complete accurate and timely basis in compliance with the terms of the grant. By the application of alternative audit procedures we have been able to obtain sufficient information and explanations that we considered necessary for the purposes of our audit.

As disclosed in the fund Accountability Statement on page 13, \$946,658 of costs were directly incurred by the Asia Foundations head office in San Francisco. These costs were specifically excluded from the scope of our audit and therefore our opinion as set out below is restricted to locally incurred expenditure.

In our opinion, the Fund Accountability Statement referred to above presents fairly in all material respects project revenues and locally incurred expenditure for the period September 30, 1992 to September 30, 1993, in accordance with the terms of the grant agreement and in conformity with the basis of accounting described in note 1 on page 14.

Mr Richard Thabet  
Regional Inspector General for Audit, Singapore  
US Agency for International Development  
Singapore

**Audit results** (cont)

(b) **System of Internal Controls**

In accordance with Paragraph 19 of Chapter 5 of Government Auditing Standards, we limited our reliance on TAF's internal control structure as, our preliminary review and documentation of the accounting and control systems indicated, an adequate structure for the purposes of audit reliance did not exist. We therefore adopted a substantive approach in our audit of the Fund Accountability Statement.

During the course of our audit we noted certain matters involving the internal control structure and its operation that we considered to be reportable conditions. We believe that some of these matters are material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the 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 may occur and may not be detected within a timely period by employees in the normal course of performing their assigned functions.

These matters have been detailed within the body of our report on pages 21 and 22 and is summarised below:

- inadequate monitoring and reconciliation of USAID funds received;

Mr Richard Thabet  
Regional Inspector General for Audit, Singapore  
US Agency for International Development  
Singapore

**Audit results** (cont)

(c) **Compliance with Agreement Terms, Applicable Laws and Regulations**

Our tests for compliance with agreement terms, applicable laws and regulations of selected transactions and records of TAF indicated that for the items tested, TAF failed to comply with provisions of its agreement terms for the period under our review.

Material instances of non-compliance were noted and these are discussed further in our detailed report on pages 27 to 36, and are summarised below:

- maintenance of the accounting and other records could be improved;
- inadequacies in the format and submission of quarterly workplans;
- inadequacies in the accounting for expenditures under the non-USAID portion of the budget;

Therefore with respect to items not tested by us nothing came to our attention that TAF had not complied in all material respects with those provisions, applicable laws and regulations.

Mr Richard Thabet  
Regional Inspector General for Audit, Singapore  
US Agency for International Development  
Singapore

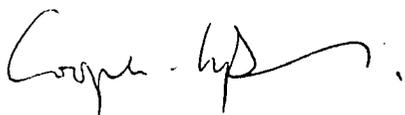
**Follow up on prior audits**

In the course of our work, no significant or material findings and recommendations from previous audits, which affect the current audit objectives, were noted.

**Acknowledgements**

We would like to take this opportunity to express our gratitude for the assistance given to us by the RIG/A/S office, USAID/Cambodia, USAID/Thailand and the management and staff of TAF in Bangkok and Phnom Penh during the course of our audit.

Yours sincerely



Coopers & Lybrand

**REPORT ON THE  
FUND ACCOUNTABILITY STATEMENT**

Mr Richard Thabet  
Regional Inspector General  
for Audit, Singapore  
US Agency for International Development  
302 Orchard Road  
#03-01 Tong Building  
Singapore 0923

15 September 1994

Dear Mr Thabet,

**THE ASIA FOUNDATION  
PERTAINING TO ITS GRANT WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN CAMBODIA**

**INDEPENDENT AUDITORS' REPORT ON THE FUND  
ACCOUNTABILITY STATEMENT**

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- 1 We have audited the Fund Accountability Statement of The Asia Foundation pertaining to its Grant, Grant No. 442-0111-G-00-2382-00, with the United States Agency for International Development, Cambodia ("USAID/C"), for the period September 30, 1992 to September 30, 1993. Funding under this Grant continues beyond our review period.
- 2 As stated in Note 2 on page 15, the Fund Accountability Statement presents only the transactions of The Asia Foundation as they pertain to the Grant for the period September 30, 1992 to September 30, 1993, and is not intended to present fairly the receipts and expenditure of The Asia Foundation as a whole.

Mr Richard Thabet  
Regional Inspector General for Audit, Singapore  
US Agency for International Development  
Singapore

- 3 This Fund Accountability Statement for the Grant for the period September 30, 1992 to September 30, 1993 and the notes thereon, and as set out on pages 13 to 16, are the responsibility of The Asia Foundation's management. Our responsibility is to express an opinion on the Statement based on our audit.
- 4 Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted US Government auditing standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.
- 5 We do not have a continuing education program that fully satisfies the requirements set forth in Chapter 3, paragraph 6 of U.S. Government Auditing Standards. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirements.
6. During the period September 30, 1992 to September 30, 1993 The Asia Foundation did not maintain proper accounting records on a complete, accurate and timely basis in compliance with the terms of the grant. By the application of alternative audit procedures we have been able to obtain sufficient information and explanations that we considered necessary for the purposes of our audit.
- 7 As discussed in the fund Accountability Statement on page 13, \$946,658 of costs were directly incurred by The Asia Foundations head office in San Francisco. These costs were specifically excluded from the scope of our audit and therefore our opinion as set out in paragraph 8 below is restricted to locally incurred expenditure.
- 8 In our opinion the Fund Accountability Statement referred to above presents fairly in all material respects project revenues and locally incurred expenditure for the period September 30, 1992 to September 30, 1993, in accordance with the terms of the grant agreement and in conformity with the basis of accounting described in note 1 on page 14.

Mr Richard Thabet  
Regional Inspector General for Audit, Singapore  
US Agency for International Development  
Singapore

- 9 This report is intended solely for the use of the Agency for International Development and The Asia Foundation and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the USAID Regional Inspector General for Audit, Singapore, is a matter of public record.

 (TH) Co. Ltd

COOPERS & LYBRAND (TH) CO. LTD  
Certified Public Accountants

**THE ASIA FOUNDATION  
GRANT NO 442-0111-G-00-2382-00**

**FUND ACCOUNTABILITY STATEMENT FOR THE  
PERIOD SEPTEMBER 30, 1992 TO SEPTEMBER 30, 1993**

	TOTAL	FIELD	SAN FRANCISCO
<b>Revenue (TAF available funds)</b>			
Support from USAID	2,000,000		
Deferred support from USAID	<u>2,948,470</u>		
<b>TOTAL REVENUE</b>	<b>4,948,470</b>	<b>N/A</b>	<b>N/A</b>
 <b>Program Grant Expenditures</b>			
ISSUE 1 - legal and judicial reform	121,408	66,135	55,273
ISSUE 2 - democratic values and practice	134,463	134,463	0
ISSUE 2 - equipment for grantee	(5,933)	(5,933)	0
ISSUE 3 - public interest NGOs	<u>299,938</u>	<u>244,368</u>	<u>55,570</u>
	549,876	439,033	110,843
Personnel	526,461	66,775	459,686
Travel	104,782	63,390	41,392
Facilities	106,306	26,044	80,262
Communications & supplies	81,854	58,783	23,071
Equipment expenses	41,697	7,404	34,293
Other expenses	8,040	6,271	1,769
Acquisition cost of property	<u>47,191</u>	<u>47,191</u>	<u>0</u>
	1,466,207	714,891	751,316
Indirect costs @ 26%	<u>381,214</u>	<u>185,872</u>	<u>195,342</u>
<b>TOTAL FUNDS SPENT</b>	<b>1,847,421</b>	<b>889,631</b>	<b>946,658</b>
 Excess funds carried forward	 <u>3,101,049</u>	 <b>N/A</b>	 <b>N/A</b>

## THE ASIA FOUNDATION

### Notes to the Fund Accountability Statement

#### 1 Significant Accounting Policies

##### (a) Basis of Accounting

###### 1) Accrual Basis For Published Statements

The Foundation maintains its accounts on the accruals basis of accounting. Under the accrual basis, grant expenses are recorded at the time a letter of agreement is countersigned by the grantee.

###### 2) Modified Accrual Basis for Internal Reports and Reports to USAID

For purposes of certain internal reports and the preparation of financial reports to the donors including USAID, grant includes payments to grantees, beneficiaries, and third parties as well as all valid expenses accruals in accordance with generally accepted accounting principles and excludes grants payable.

##### (b) Foreign currencies

Substantially all cash in Asia is in foreign currencies that are translated to US dollars at appropriate free market exchange rates, and any resulting gain or loss is included in the related year's results of operations. Due to local foreign exchange laws, most foreign currencies held by the Foundation are not convertible to US dollars.

##### (c) Support and Deferred Support

The foundation records grants from USAID in the Fund and contribution support in the year which the grantor or contributor indicates the funds are intended for use, or when the conditions relating to the use of funds described in the grant or pledge agreement, if any, are met. Grants and contributions designated to be used for programs grants to be made in future years, or for which conditions have not yet been met, are recorded as deferred support in the current year and will be reflected as current support in future years.

1 Summary of significant accounting policies(cont)

(d) Program grants, Foundation Managed Grants and Direct Service Costs

The foundation records program grants at the time an agreement that commits funds to a subgrantee is signed.

The Asia Foundation manages or contracts to manage certain program activities itself, including those in the Cambodian Democracy and Law Program.

In addition, the foundation charges direct service costs to program grant and foundation managed grant activity. Direct service costs are the costs of personal services, employee housing, office rent, travel, and evaluations that can readily be identified with and charged to the grant.

(e) Property and equipment

Property and equipment are recorded at cost, or at fair market value if donated.

(f) Contributions in kind

The foundation records contributions in kind at their fair market value when received. Fair value is determined based on independent sources, such as price lists and market quotations, and represents the estimated amount the foundation would have paid had it been required to use its own resources to purchase the donated materials or services.

2 Component Unit of The Asia Foundation

The Fund Accountability Statement of The Asia Foundation presents only the transactions pertaining to its Grant received from USAID/C as detailed in paragraph 2 of page 10 of our report on the statement, and is not intended to present fairly the receipts and expenditure of The Asia Foundation as a whole.

The equipment for Grantee US\$5,933 represents a transfer of cost to property and equipment (see note 4).

3 Indirect cost rate

The indirect cost rate is negotiated annually with the Foundation's cognizant agency, the US Department of State.

The results of each negotiation are set forth in a written negotiated cost rate agreement. Such agreement specifies (a) the agreed final rates, (b) the basis to which the rates apply, (c) the periods to which the rates apply, and (d) new current provisional rates. This agreement does not, ipso facto, change any monetary ceiling, grant obligation of specific cost allowances or disallowances provided or in these Grants. Any monetary adjustments are subject of separate agreement or amendment to existing grants.

The different indirect cost levels are used as follows:

- (a) Interim reports use the current provisional rate,
- (b) After each fiscal year is closed, the general ledger and internal reports use the final rate,
- (c) The annual audited financial statement uses the final rate.

4 Property and equipment

This represents fixed assets acquired for the purposes of implementing the project and is the property of USAID.

	<u>Foundation acquired</u>	<u>Sub- grantee acquired</u>	<u>Total</u>
	\$	\$	\$
Cost	41,258	5,933	<u>47,191</u>

# **REPORT ON THE SYSTEM OF INTERNAL CONTROLS**

Mr Richard Thabet  
Regional Inspector General  
for Audit, Singapore  
US Agency for International Development  
302 Orchard Road  
#03-01 Tong Building  
Singapore 0923

15 September 1994

Dear Mr Thabet,

**THE ASIA FOUNDATION  
PERTAINING TO ITS GRANT WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN CAMBODIA**

**INDEPENDENT AUDITORS' REPORT ON THE SYSTEM OF  
INTERNAL CONTROLS**

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- 1 We have audited the Fund Accountability Statement of The Asia Foundation ("TAF") pertaining to its Grant, Grant No. 442-0111-G-00-2382-00 with the United States Agency for International Development, Cambodia ("USAID/C"), for the period September 30, 1992 to September 30, 1993. Funding under this Grant continues beyond our review period.
- 2 This Statement, comprising the Receipts and Expenditure Statement for the Grant for the period September 30, 1992 to September 30, 1993 and the notes thereon, are set out on pages 13 to 16, and are the responsibility of TAF's management. Our responsibility is to express an opinion on this statement based on our audit. The Statement presents only the transactions of TAF's operations as they pertain to the Democracy and Law in Cambodia Project and is not intended to present fairly the receipts and payments of TAF as a whole. We have issued our report thereon dated 15 September 1994.
- 3 Except for not having a fully satisfactory continuing education program, we conducted our audit in accordance with generally accepted US Government auditing standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Mr Richard Thabet  
Regional Inspector General for Audit, Singapore  
US Agency for International Development  
Singapore

- 4 In planning and performing our audit of TAF, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure of TAF as a whole.
- 5 The management of TAF is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure, policies and procedures.
- 6 The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in accordance with generally accepted accounting principles. 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 operation of policies and procedures may deteriorate.
- 7 For the purpose of this report, we have classified the significant internal control structure policies and procedures in Thailand and Cambodia into the following categories:

Accounting Controls:

- Cash disbursements
- Payroll
- Property and equipment
- Purchasing and receipts
- Weekly expenditure reports

Administrative Controls:

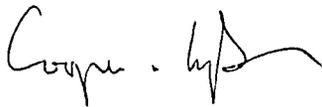
- Cost allocation and allowability
- Monitoring
- Reporting

Mr Richard Thabet  
Regional Inspector General for Audit, Singapore  
US Agency for International Development  
Singapore

- 8 For all the internal control structure categories listed in paragraph 7 above, we obtained an understanding of the design of relevant policies and procedures and whether they had been in operation, and we assessed control risk.
- 9 As a result of these procedures, and in accordance with Government Auditing Standards, we limited our reliance on the internal control structure, as an adequate structure for the purposes of audit reliance was considered not to be in existence. As a consequence, we adopted a substantive testing approach in our audit of the Fund Accountability Statement.
- 10 However, during the course of our audit, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the organization's ability to record, process, summarize and report financial data, consistent with the assertions of management, in the financial statements.
- 11 Our audit revealed the following reportable condition, which is described in detail on pages 21 to 22:
  - Inadequate monitoring and reconciliation of USAID funds received.
- 12 A material weakness is a condition in which the design or operation of the specific internal control structure element does not reduce, to a relatively low level, the risk that errors or irregularities, in amounts that would be material in relation to the Statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned tasks.

Mr Richard Thabet  
Regional Inspector General for Audit, Singapore  
US Agency for International Development  
Singapore

- 13 Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we consider those reportable conditions (a) to (c) described in paragraph 11 to be material weaknesses.
- 14 This report is intended solely for the use of the Agency for International Development and TAF and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the USAID Regional Inspector General for Audit, Singapore, is a matter of public record.

 (TH) Co. Ltd

COOPERS & LYBRAND (TH) CO. LTD  
Certified Public Accountants

**THE ASIA FOUNDATION**  
**SCHEDULE OF REPORTABLE CONDITIONS**

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**INADEQUATE MONITORING AND RECONCILIATION OF USAID FUNDS RECEIVED**

**Background**

Application for payment of amounts obligated by USAID under the grant are made by the quarterly submission of Financial Status Reports, SF269 which are prepared and submitted to USAID by the head office in San Francisco.

We are unable to reconcile the quarterly Financial Status Reports submitted by TAF to the general ledger and other accounting records in respect of amounts recorded as revenue received and deferred US government support.

**Condition**

The quarterly financial status reports, SF269, submitted to USAID for the quarter ended 30 September 1993 records total project outlays to date of \$1,626,976. We have reconciled this amount to the Commitment Liquidation Record provided to us by the USAID/Regional Support Mission in Thailand. However as a result of timing differences arising from the modified accruals basis of accounting which results in inconsistencies between expenditure claimed for reimbursement in the SF269 and expenditure recorded in the Fund Accountability Statement we are unable to comprehensively reconcile the amount drawn down of \$1,626,976 with TAF's accounting records which record US Government revenue received as \$2,300,076.

**Criteria**

USAID Handbook 13, Mandatory Standard Provision "Accounting, audit and records" which forms part of the Grant Agreement, requires the grantee's financial management system to provide for records that identify adequately the source and application of funds for USAID sponsored activities. These records should contain information pertaining to Federal awards, authorisations, obligations, unobligated balances, assets, outlays and income.

The same provision also requires effective control and accountability for all funds.

**THE ASIA FOUNDATION**  
**SCHEDULE OF REPORTABLE CONDITIONS**

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**INADEQUATE MONITORING AND RECONCILIATION OF USAID FUNDS RECEIVED**  
**(cont)**

**Cause**

As set out in note 1 to the Fund Accountability Statement on page 14 The Asia Foundation adopts a modified accruals basis of accounting for reports to USAID.

As a result of this modified accruals basis timing differences arise in the recording of expenditure claimed for reimbursement in the SF269 and that recorded in the internal accounting records and the Fund Accountability Statement.

**Effect**

Failure to reconcile funds recorded as received with amounts drawn down under the federal letter of credit does not meet the accounting requirements of the Grant Agreement. Furthermore, as a result of failing to reconcile revenue, TAF is unable to ensure that assets are safeguarded on an ongoing basis.

**Recommendation**

TAF should implement procedures to reconcile the Financial Status Reports submitted to USAID with the underlying accounting records on a quarterly basis. Reconciliations should include reconciliation of amounts recorded as revenue received and amounts claimed as total outlays incurred.

TAF should also reconcile and account to USAID for the \$ 225204 excess expenditure recorded in the Fund Accountability Statement with the amount claimed in the fourth quarter Financial Status Report.

**Management Comments**

In July 1993, TAF underwent an extensive accounting software conversion. Significant implementation issues were encountered and resources were temporarily diverted to resolve these problems. The conversion problems have now been substantially resolved. During the time period in which accounting department staff were focused on system conversion issues, which coincided with the period under audit, certain controls were not enforced nor reconciliations performed on a strict and timely basis.

TAF current procedures ensure that total project outlays recorded on the Financial Status Reports submitted to USAID reconcile to the underlying internal accounting records.

Mr Richard Thabet  
Regional Inspector General  
for Audit, Singapore  
US Agency for International Development  
302 Orchard Road  
#03-01 Tong Building  
Singapore 0923

15 September 1994

Dear Mr Thabet,

**THE ASIA FOUNDATION  
PERTAINING TO ITS GRANT WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
IN CAMBODIA**

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

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- 1 We have audited the Fund Accountability Statement of The Asia Foundation ("TAF") pertaining to its Grant, Grant No. 442-0111-G-00-2382-00, with the United States Agency for International Development, Cambodia ("USAID/C"), for the period September 30, 1992 to September 30, 1993. Funding under this Grant continues beyond our review period.
- 2 This Statement, comprising the Receipts and Expenditure Statement for the Grant for the period September 30, 1992 to September 30, 1993 and the notes thereon, are set out on pages 13 to 16, and we have issued our report thereon dated 15 September 1994.
- 3 We conducted our audit in accordance with generally accepted US Government auditing standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Mr Richard Thabet  
Regional Inspector General for Audit, Singapore  
US Agency for International Development  
Singapore

- 4 Compliance with agreement terms and laws and regulations applicable to TAF is the responsibility of TAF's management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of TAF's compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. We also performed tests of TAF's compliance with certain provisions of agreement terms and laws and regulations applicable to the provision of counterpart contributions.
- 5 Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from these failures or violations is material to the Fund Accountability Statement and the schedule of counterpart contributions.
- 6 Our audit revealed the following material instances of noncompliance, which are described in greater detail on pages 27 to 30:
  - (a) The maintenance of the accounting records could be improved to ensure there are prepared on a complete, accurate and timely basis;
  - (b) Inadequacies in the format of quarterly workplans;
  - (c) Inadequacies in the accounting for expenditures under the non-USAID portion of the budget;
- 7 We consider that all the instances of noncompliance in paragraph 6 are material instances of noncompliance. We considered these instances of noncompliance in forming our opinion on whether the Fund Accountability Statement for the period September 30, 1992 to September 30, 1993 is presented fairly, in all material respects, in accordance with the terms of the Grant and in conformity with the basis of accounting described in note 1 to the Fund Accountability Statement. As a result of the adoption of alternative procedures of testing these instances of material non-compliance did not effect our opinion on the Fund Accountability Statement in our audit report dated 15 September 1994.

Mr Richard Thabet  
Regional Inspector General for Audit, Singapore  
US Agency for International Development  
Singapore

- 8 Except for the instances of noncompliance mentioned in paragraph 6 above, the results of our tests of compliance indicate that, with respect to the items tested, TAF complied, in all material respects, with the provisions referred to in paragraph 4 above. With respect to items not tested, nothing came to our attention that TAF had not complied with applicable agreement laws and regulations.
- 9 This report is intended solely for the use of the Agency for International Development and TAF, and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the USAID Regional Inspector General for Audit, Singapore, is a matter of public record.



COOPERS & LYBRAND (TH) CO. LTD  
Certified Public Accountants

## THE ASIA FOUNDATION

### SCHEDULE OF AUDIT FINDINGS ON NON-COMPLIANCE

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1. **THE MAINTENANCE OF THE ACCOUNTING AND OTHER RECORDS COULD BE IMPROVED TO ENSURE THEY ARE PREPARED ON A COMPLETE, ACCURATE AND TIMELY BASIS**

#### Background

TAF did not comply with many of the specific financial and reporting provisions contained within its Grant Agreement. We consider this partly resulted from implementation difficulties experienced in the conversion to new accounting software in July 1993 which resulted in a deterioration in the structure, operation and control of TAF's accounting and financial reporting systems principally during the period from July to September 1993.

#### Condition

- (a) A final general ledger and supporting schedules were not made available until five months after the year end.
- (b) TAF have prepared an analysis of actual expenditure by substantive programmatic area but have not prepared a comparison of actual expenditure against budget.
- (c) A review of the general ledger revealed a substantial number of journal entries dated 30 September 1993 indicating the possibility that retrospective adjustments were required to correct previous entries.
- (d) A review of the general ledger revealed a significant number of transfers and adjustments had been made between accounts during the year indicating a high incidence of correcting entries.
- (e) A review of the cashsheets indicated that during the first six months of the audit period there was a timelag of up to three months in the reporting of expenditure to the head office, ie documentation dated in March recorded in June.

## THE ASIA FOUNDATION

### SCHEDULE OF AUDIT FINDINGS ON NON-COMPLIANCE

---

1. **THE MAINTENANCE OF THE ACCOUNTING AND OTHER RECORDS COULD BE IMPROVED TO ENSURE THEY ARE PREPARED ON A COMPLETE, ACCURATE AND TIMELY BASIS** (cont)
- (f) We experienced difficulties in obtaining comprehensive explanation of the structure and format of the general ledger and accounting records, other than in respect of the generation of cashsheets, from the field offices, particularly in respect of the period subsequent to July 1993 when the conversion to new accounting software was made.
- (g) As a result of timing differences arising from the application of a modified accruals basis of accounting we have been unable to comprehensively reconcile amounts recorded as revenue received by TAF with the accounting records of USAID.
- (h) Weaknesses in the monitoring of actual expenditure incurred by subgrantees against subgrant agreements and budgets.
- (i) Weaknesses in the maintenance of comprehensive records of USAID concurrence to awards made to subgrantees.
- (j) Weaknesses in the monitoring of progress, substantive and financial reporting by subgrantees.

#### Criteria

USAID Handbook 13, Provision 2, "Accounting, Audit and Records" requires the maintenance of an accounting system sufficient to ensure:

- accurate, current and complete disclosure for a USAID sponsored project in accordance with the terms of the grant;
- records adequately identifying the source and application of funds for USAID sponsored activities, containing information pertaining to Federal awards, authorisations, obligations, unobligated balances, assets, outlays and income;
- effective control and accountability for all funds, property and other assets, including procedures to safeguard such assets and to ensure that they are used solely for authorised purposes;

## THE ASIA FOUNDATION

### SCHEDULE OF AUDIT FINDINGS ON NON-COMPLIANCE

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1. **THE MAINTENANCE OF THE ACCOUNTING AND OTHER RECORDS COULD BE IMPROVED TO ENSURE THEY ARE PREPARED ON A COMPLETE, ACCURATE AND TIMELY BASIS** (cont)

- comparison of actual outlays with budget amounts;
- accounting records that are supported by documentation that at a minimum will identify, segregate, accumulate and record all costs incurred under a grant and which fully disclose:
  - the amount and disposition by the grantee of the proceeds of such assistance;
  - the total cost of the project in connection with which such assistance is given or used;
  - the amount of that portion of the cost of the project supplied by other sources; and
  - such records that will facilitate an effective audit.
- The grantee shall require subgrantees to adopt the above standards.

#### Cause

The period September 30, 1992 to September 30, 1993 encompassed the start up stage of the project. Initially following the award of the grant on September 30, 1992 the project was managed by TAF's field office in Bangkok, Thailand. When the political circumstances of Cambodia permitted the management of the project was transferred to a newly established office in Phnom Penh. The Phnom Penh was initially a project office and remained under the managerial control of the Bangkok field office. The Phnom Penh office was operating under significant organisational and status constraints present in Cambodia at that time. In August 1993 the status of the Phnom Penh office was upgraded to a field office and management responsibility was vested in a resident representative.

In July 1993 TAF underwent an accounting software conversion. Significant implementation problems were experienced in the conversion process resulting in a substantial deterioration in the home office's ability to generate financial information and reports. We understand that the conversion problems have now substantially been resolved.

## THE ASIA FOUNDATION

### SCHEDULE OF AUDIT FINDINGS ON NON-COMPLIANCE

---

1. **THE MAINTENANCE OF THE ACCOUNTING AND OTHER RECORDS COULD BE IMPROVED TO ENSURE THEY ARE PREPARED ON A COMPLETE, ACCURATE AND TIMELY BASIS** (cont)

#### **Effect**

TAF did not comply with many of the specific financial and reporting conditions contained within its grant agreement.

#### **Recommendation**

TAF should ensure that the Phnom Penh office accounting function receives support and training from the home office to enable the local accounting function to effectively performed its responsibilities.

There should be increased liaison between the home office and field office to ensure that the financial reporting requirements of the field office can be met on a timely basis.

We understand that with the resolution of the Fundware conversion problems and in the period subsequent to September 30, 1993 that TAF have already begun to substantially address many of the weaknesses in the maintenance of accounting records that were experienced in the first fiscal year of the grant.

#### **Management Comments**

Many of the conditions noted as areas for improvement in the accounting and record maintenance arena resulted from factors specific to the time frame in which the audit was conducted: the management of the project from a newly established office and the accounting system conversion at Head Office. TAF has subsequently focused resources to ensure that the level of expertise at the Phnom Penh office was raised to allow effective performance of the responsibilities assigned and the issues resulting from system conversion were satisfactorily resolved. As a result of this on-going process, the timeliness of reporting to Field Offices is being improved and a stronger relationship between the home office and Field Office built.

## THE ASIA FOUNDATION

### SCHEDULE OF AUDIT FINDINGS ON NON-COMPLIANCE

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#### 2. INADEQUACIES IN THE FORMAT OF QUARTERLY WORKPLANS

##### **Background**

The Grant Agreement requires the submission of an annual workplan outlining activities to be undertaken. The workplan should be prepared on a substantive programmatic area basis and should be reviewed with USAID on a quarterly basis with agreement of clearly defined activities to be undertaken in the following three months.

Although workplans were submitted and USAID closely monitored activities to be undertaken, the financial content of the workplans was of insufficient clarity to enable TAF and USAID to monitor projected expenditure against the authorised budget and actual expenditure.

##### **Condition**

A combined quarterly workplan was submitted for the pre-election period covering the three quarters ended 30 June 1993. The plan was submitted to USAID in January 1993. This workplan contained earmarked expenditure by substantive programmatic area for fiscal year 1993 of \$ 5,000,000 and projected expenditure of \$ 1,999,580 for the period to 30 June 1993. The workplan did not contain projections of cash and in-kind counterpart contributions. Projected expenditure of \$ 1,999,580 for nine months therefore represented USAID's obligated funding of \$ 2,000,000 for the fiscal year.

A one month plan was submitted on 3 June 1993 outlining proposed activities for the month of June with projected expenditure of \$ 251,000. This plan does not specifically quantify whether the projected activities had previously been incorporated into the previous three quarters work plan. No clear analysis of projected expenditure by substantive programmatic area was included.

A workplan for the final three months of the fiscal year was also submitted on 3 June 1993. The quarterly budget outlined in this workplan included projected expenditure of \$ 1,178,900. No clear analysis of projected expenditure by substantive programmatic area was included.

Responsibility for preparation and submission of the workplans vests in the local TAF office. Responsibility for financial management reporting primarily vests in the head office. Financial reporting of actual expenditure and comparison against budgeted/approved expenditure was insufficient to highlight to TAF the increasing divergence of budgeted and actual expenditure thereby resulting in unrealistic workplans.

## THE ASIA FOUNDATION

### SCHEDULE OF AUDIT FINDINGS ON NON-COMPLIANCE

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#### 2. INADEQUACIES IN THE FORMAT OF QUARTERLY WORKPLANS (cont)

TAF have provided no comparison of projected expenditure with USAID approved expenditure or actual expenditure. Total expenditure projected in the workplans amounted to \$ 3,429,480, substantially in excess of USAID obligated funds of \$ 2,000,000. USAID did not formerly concur with the administration expenditure proposed in the quarterly workplans and assuming that no notification of disconcurrence can be accepted as concurrence we have quantified total USAID approved expenditure as \$ 2,579,580.

In comparison with TAF projected expenditure of \$ 3,429,480 and USAID approved expenditure, the Fund Accountability Statement records actual expenditure of \$ 1,847,805.

#### Criteria

USAID Handbook 13 Mandatory Standard Provision Number 4 "Revision of Grant Budget" forms part of the Grant Agreement. This provision requires the grantee to immediately request approval from the grant officer when it has reason to believe that within the next 30 calendar days a revision of the grant budget will be necessary for one of the following applicable reasons:

- changes in the scope or the objectives of the program and/or revisions in the funding allocated among program objectives;
- the need for additional funding; or
- the grantee expects the amount of AID authorised funds to exceed its needs by more than 5 %, ie \$100,000 for fiscal year 1993, of the AID award.

#### Cause

Submission of the quarterly work plans was affected by the changes in senior management in the Phnom Penh office which occurred in the period and which undermined the stability of the planning process.

Political, social and economic conditions in Cambodia in the period also resulted in a rapidly changing environment which hindered the planning process as project objectives were altered and/or re-prioritised.

## THE ASIA FOUNDATION

### SCHEDULE OF AUDIT FINDINGS ON NON-COMPLIANCE

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#### 2. INADEQUACIES IN THE FORMAT OF QUARTERLY WORKPLANS (cont)

##### **Effect**

USAID obligated funds for fiscal year 1993 in excess of actual expenditure of \$ 152,195. However, as the projected expenditure recorded in the workplans was substantially higher than actual expenditure, a request for an increase of the grant budget should have been submitted under the requirements of Handbook 13.

##### **Recommendation**

The Grant Agreement has been amended for fiscal year 1994 to require TAF to submit annual and quarterly workplans divided into the substantive programmatic areas covered by the grant. The workplans are also required to define benchmark indicators for each proposed activity, and to indicate the means of verification to be used. The Grant Agreement has further been amended to require the quarterly reports to indicate financial expenditures by the same substantive programmatic areas. Compliance with these amendments will enhance TAF and USAIDs' ability to monitor the grant and to ensure compliance with the terms and conditions of the Grant.

##### **Management Comments**

Amendment three to the Grant, dated July 29, 1994, replaces the three monthly/quarterly program report requirement. TAF has systems in place to ensure compliance with the terms and conditions of the grant. The program reports submitted by TAF/Cambodia to AID/Cambodia include a presentation of financial expenditures for each substantive program component.

## THE ASIA FOUNDATION

### SCHEDULE OF AUDIT FINDINGS ON NON-COMPLIANCE

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#### 3. INADEQUACIES IN THE ACCOUNTING FOR EXPENDITURES UNDER THE NON-USAID PORTION OF THE BUDGET

##### **Background**

The Grant Agreement contains a cost sharing provision whereby TAF shall share the cost of the program through its own cash and in-kind contributions which will total an estimated \$ 4,220,000 for the 48 months of the project.

Although cash and in-kind contributions totalling \$ 309,236 were reported as cumulative totals for fiscal year 1993 in the fourth quarter progress report, the Fund Accountability Statement reports a nil balance for such contributions.

##### **Condition**

The Fund Accountability Statement does not contain a reporting of cash and in-kind contributions. No reporting has been made to USAID of such contributions other than a) a cumulative amount of \$ 309,236 reported in the fourth quarter progress report, comprising \$ 176,446 cash contributions and \$ 132,790 in-kind contributions, and b) a cumulative total of \$ 213,745 reported in the April/May progress report for the eight months ended 30 May 1993.

##### **Criteria**

The Grant Agreement contains a specific provision requiring TAF to submit an accounting of expenditures for the non-USAID portion of the budget after the completion of the first six months of the grant period, ie the six months ended 31 March 1993, and at six monthly intervals thereafter.

The Grant Agreement recommends that the quarterly progress reports follow a standard reporting format that includes the reporting of "Amount of Other Resources (non-USAID) programmed", distinguishing between "total cash input to date", "total value of commodities/services to date" and "Balance remaining".

Additionally USAID Handbook 13 as applicable to this Grant Agreement requires accounting records that are supported by documentation.

**THE ASIA FOUNDATION**

**SCHEDULE OF AUDIT FINDINGS ON NON-COMPLIANCE**

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**3. INADEQUACIES IN THE ACCOUNTING FOR EXPENDITURES UNDER THE NON-USAID PORTION OF THE BUDGET (cont)**

**Cause**

Late submission and failure to submit financial reports by subgrantees significantly hindered TAFs ability to quantify the value of cash and in-kind contributions.

**Effect**

We understand that the cost sharing provision is cumulative over the 4 year life of the grant. Furthermore, we understand that TAF are seeking a waiver of the cost-sharing provision or substantial renegotiation of its applicability to this grant. However, unless and until such a waiver is granted, USAID are unable to monitor whether their share of program costs exceed the approved amount and by failing to provide an accounting for such cash and in-kind contributions TAF are failing to comply with the terms of the grant.

**Recommendation**

TAF should provide a full accounting for cash and in-kind contributions for fiscal year 1993 to USAID as soon as the financial information is available.

We understand that TAF/Phnom Penh have recently appointed an auditor whose responsibilities will include the monitoring of timely receipt of financial reports from subgrantees in accordance with the terms of agreement of the awards made to the subgrantees. We recommend that this monitoring process be firstly applied on a retrospective basis to fiscal year 1993 to enable a submission of the required accounting to USAID.

We also recommend that TAF's head office in San Francisco establish and implement procedures to ensure that a quantification of cash and in-kind contributions is supplied on a timely basis to TAF/Phnom Penh for inclusion into the quarterly progress reports.

**Management Comments**

Amendments three to the Grant, dated July 29, 1994 indicates that "The Grantee shall provide its contributions to this program in the amount as indicated in Section D from non-USAID funds. This represents a change from the earlier Grant requirement that the TAF contribution be from non-Federal funds. This change is retroactive to the start of the Grant, September 30, 1992".

TAF/Phnom Penh has appointed staff whose responsibilities include monitoring the submission of financial reports from sub-grantees. A Compliance Unit, consisting of a unit director and two auditors, is in place in the TAF/Phnom Penh office. TAF/Phnom Penh has contracted an additional staff member to monitor sub-grantee reporting and assure timely submission of sub-grantee reports. Sub-grantees are required to submit financial reports (TAF 209s) which include counterpart contributions in cash and kind.

Cash and in-kind contributions are included in semi annual program reports submitted to USAID/Cambodia. Cash and in-kind contributions are now included in TAF headquarters' form 269 submissions to USAID/Washington.