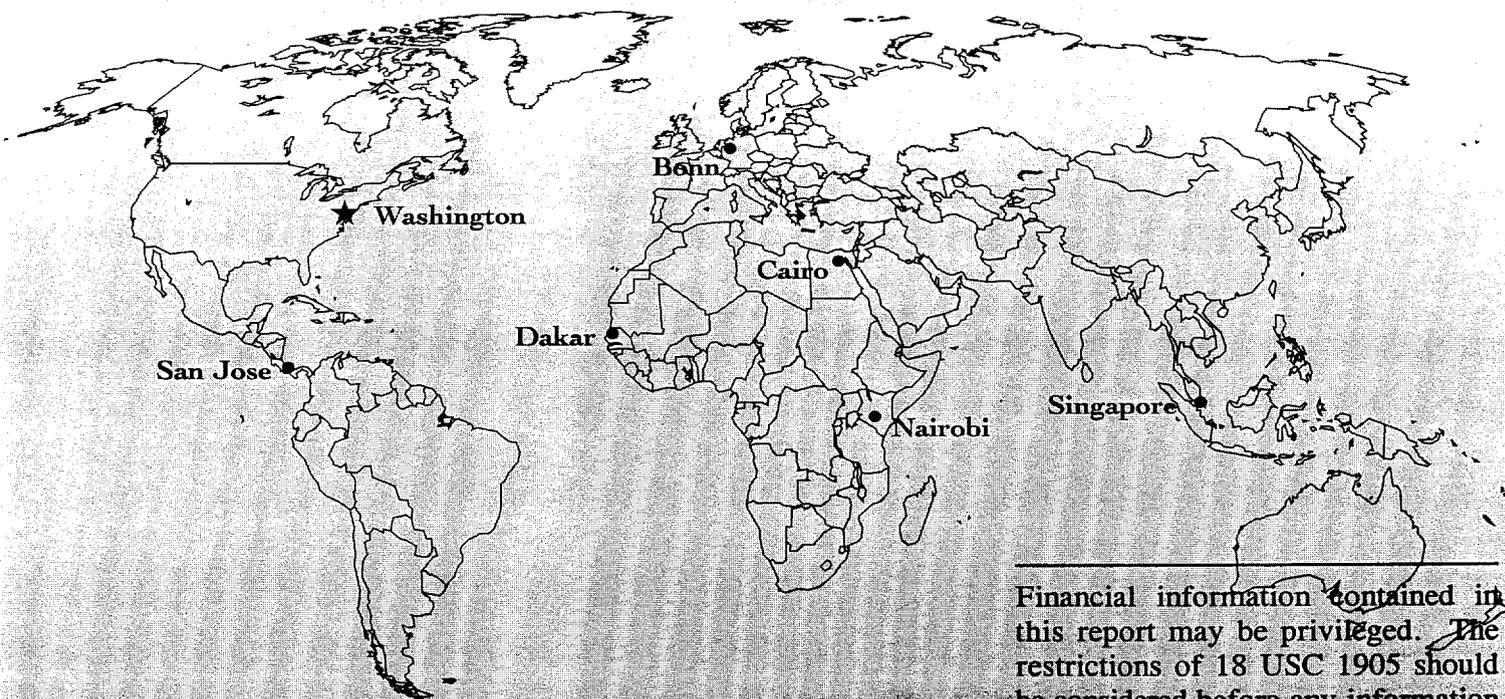


Regional Inspector General for Audit
San Salvador, El Salvador

**Audit of USAID/Peru's
Teaching Support to the Field Epidemiology Training Program
Managed by the Peruvian University Cayetano Heredia
for the Period September 18, 1989 to December 31, 1992**

Audit Report No. 1-527-96-04-N
February 27, 1996



Financial 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.



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
SAN SALVADOR, EL SALVADOR

Unit 3110
APO AA 34023
Telephone 298-1666
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February 27, 1996

MEMORANDUM

TO: Director USAID/Peru, George Wachtenheim

FROM: RIG/San Salvador, Wayne J. Watson 

SUBJECT: Audit of the Teaching Support to the Field Epidemiology Training Program Managed by the Peruvian University Cayetano Heredia under USAID/Peru's Child Survival Action Project, USAID/Peru Project No. 527-0285, for the Period September 18, 1989 to December 31, 1992

This report presents the results of a financial audit of USAID/Peru Project No. 527-0285 managed by the Peruvian University Cayetano Heredia (the University) for the period September 18, 1989 to December 31, 1992. The audit firm of Panez, Chacaliaza, Barreda, S.C., prepared the report dated May 10, 1994.

The purpose of this project was to improve health services and provide training for health professionals in order to meet the health care needs of the population. The University was in charge of organizing and implementing training courses with the cooperation of technical Directorates of Epidemiology and Human Resources Development of the Ministry of Health. The program provided two years of training to health professionals with groups of six to twelve participants enrolled annually for four consecutive years. Students selected to participate in the program received scholarships for their training. Panez, Chacaliaza, Barreda, S.C., audited \$172,800 of USAID/Peru disbursements to the project during the audit period.

The objectives of the audit were to determine whether: (1) the University's fund accountability statement presents fairly, in all material respects, the financial position of the University and costs reported as incurred and reimbursed by USAID/Peru are allowable, allocable, and reasonable in accordance with the agreement terms, and applicable laws and regulations; (2) the University's internal control structure was adequate to manage the program; and (3) the University complied with the terms of the agreement and applicable laws and regulations. The scope of the audit included an examination of the University's activities and transactions to the extent considered necessary to issue a report thereon for the audit period.

Panez, Chacaliaza, Barreda, S.C., was of the opinion that the fund accountability

statement presents fairly, in all material respects, the University's receipts and expenditures under the grant agreement; however, the report identified \$180 in questioned costs due to administrative costs charged in excess of budgeted amounts, and unsupported costs of \$128,722 for the costs of scholarships, professors' fees, and administrative costs which lacked adequate supporting documentation.

Regarding the internal control structure, the auditors identified eight reportable weaknesses. The auditors found that the University: (1) did not regularly prepare fund accountability statements, (2) lacked a complete and well-organized filing system, (3) did not have periodical audits performed of the University, (4) lacked adequate budgeting and accounting systems, (5) lacked written evidence of reconciliations between the University's records and those of USAID/Peru, (6) lacked written evidence of monthly bank reconciliations, (7) lacked a system for computing the program's indirect cost rate, and (8) lacked an updated and approved organizational procedures manual.

Regarding the University's compliance with the terms of the agreement and applicable laws and regulations, the auditors identified six material instances of noncompliance. The auditors found that the University: (1) did not provide adequate documentation for administrative costs; (2) exceeded the amount budgeted for administrative costs; (3) did not provide documentation of work performed by professors and students; (4) lacked proper documentation for liquidation vouchers; (5) submitted liquidation documents which lacked proper certification; and (6) did not obtain proper approval from the Ministry of Health for payments to professors and scholarship recipients.

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 \$128,902 (\$180 questioned and \$128,722 unsupported) identified in the Panes, Chacaliya, Barreda, S.C., report dated May 10, 1994 and recover from the Peruvian University Cayetano Heredia the amounts determined to be unallowable.

Recommendation No. 2

We recommend that USAID/Peru obtain evidence that the Peruvian University Cayetano Heredia has taken proper action to design and implement procedures to: (a) regularly prepare fund accountability statements, (b) maintain a complete and well-organized filing system, (c) have periodical audits performed of the University, (d) maintain an adequate budgeting and accounting system, (e) maintain written documentation of reconciliations between the records of the University and USAID/Peru, (f) maintain written documentation of monthly bank reconciliations, (g)

develop a system for properly computing indirect cost rates, (h) maintain an updated and approved organizational procedures manual, (i) provide adequate documentation for administrative costs, (j) assure that program budgets are not exceeded, (k) maintain adequate documentation of the work performed by professors and students, (l) provide adequate documentation for liquidation vouchers, (m) assure that liquidation vouchers are properly certified, and (n) obtain proper approval from the Ministry of Health for payments to professors and scholarship recipients.

Recommendation No. 1 will be considered resolved upon USAID/Peru'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 can be resolved when USAID/Peru presents an acceptable plan of action to correct the reported deficiencies and can be closed when it presents acceptable evidence that the required procedures have been designed and placed in operation.

The report was discussed with representatives of the University who generally agreed with the findings and recommendations included in the report. However, they expressed disagreement with several of the recommendations. The University's comments are included as Annex 2 to the Panez, Chacaliaya, Barreda, S.C., report.

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.

PERUVIAN UNIVERSITY CAYETANO HEREDIA

Audit of the teaching support to the field Epidemiology
Training Program Managed by the Peruvian University
Cayetano Heredia under USAID/PERU'S Child
Survival Action Project, USAID/PERU Project N°527-0285
for the period september 18, 1989 to december 31, 1992

AUDIT OF THE TEACHING SUPPORT TO THE FIELD EPIDEMIOLOGY TRAINING PROGRAM MANAGED BY THE PERUVIAN UNIVERSITY CAYETANO HEREDIA UNDER USAID/PERU'S CHILD SURVIVAL ACTION PROJECT USAID/PERU PROJECT N° 527-0285, FOR THE PERIOD SEPTEMBER 18, 1989 TO DECEMBER 31, 1992.

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S/. Peruvian new sol	
US\$ United states dollar	
I/. Inti	
I/M Inti million	

KVB.

5

**Regional Inspector General for Audit
San Salvador, El Salvador**

**Audit of USAID/Peru's
Teaching Support to the
Field Epidemiology Training Program
Managed by the
Peruvian University Cayetano Heredia
for the Period September 18, 1989
to December 31, 1992**

**Audit Report No. 1-527-96-04-N
February 27, 1996**

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AUDIT OF THE TEACHING SUPPORT TO THE FIELD EPIDEMIOLOGY TRAINING PROGRAM MANAGED BY THE PERUVIAN UNIVERSITY CAYETANO HEREDIA UNDER USAID/PERU'S CHILD SURVIVAL ACTION PROJECT USAID/PERU PROJECT N° 527-0285, FOR THE PERIOD SEPTEMBER 18, 1989 TO DECEMBER 31, 1992.

May 10, 1994

Mr. Coinage N. Gothard

Regional Inspector General for Audit
U.S. Agency for International Development
San Jose, COSTA RICA

Dear Mr Gothard

This report presents the results of our financial audit of the Teaching Support to the Field Epidemiology Training Program managed by the Peruvian University Cayetano Heredia under USAID/Peru's Child Survival Action Project No. 527-0285, for the period from September 18, 1989 to December 31, 1992.

BACKGROUND

On September 18, 1989, the U.S. Agency for International Development Peru (USAID/Perú) approved an Agreement for the Child Survival Action Project No. 527 - 0285 with the Ministry of Health. Under this project the Ministry of Health signed an agreement with the Peruvian University Cayetano Heredia for the Teaching Support to the Field Epidemiology Training Program (the "program"). As requested by the Ministry of Health USAID/Perú agreed to disburse US\$172,800 in project funds directly to the Peruvian University Cayetano Heredia for the Program. As of December 31, 1992, U.S.A.I.D/Perú has disbursed US\$133,160 directly to the program. The program's estimated completion date is September 30, 1994.

The Agreement signed between the Peruvian University Cayetano Heredia and the Ministry of Health is based on a basic Cooperation Agreement signed in 1987 between such entities for the purpose of regulating the coordination between them in order to improve health services and provide adequate training of health professionals directed to meet the real needs of the population in accordance with health policies and development strategies.

1

The Agreement and Implementation Letter No. 23 establish three elements which are the basis of the budget approved:

Professors' fees
Recipients of Scholarships
Administrative costs of Peruvian University Cayetano Heredia.

The University was in charge of organizing and implementing training courses with the cooperation of technical Directorates of Epidemiology and Human Resources Development of the Ministry of Health.

The list of students participating in Field Epidemiology Training Program (PREC) was prepared and formally sent by the Ministry of Health to the University. Students were granted support scholarships for their training during the Agreement performance term. The scholarship amount granted to professional students is based on the scholarship amount granted by the National Council of Science and Technology.

Administrative costs of the University are allocated at a fixed rate of 20 percent. The University has no established criteria for the calculation of this fixed rate.

AID funds were disbursed in the form of advances (remittances) based on budget requirements for three months. The amount of each advance was determined on the basis of cash flow needs.

Liquidations of costs incurred were presented on a monthly basis.

BUDGET OF THE PROGRAM

The budget approved for the period September 18, 1989 to December 31, 1992 amounted to US\$172,800.

The detailed budget of the program subject to our audit for this period was as follows :

	<u>Amount</u>
	US\$
Professors' fees	48,000
Recipients of scholarships	96,000
Administration costs	28,800

	172,800
	=====

However, the amount disbursed under the project was US\$133,160 (Refer to the fund accountability statement).

AUDIT OBJECTIVES AND SCOPE

We were engaged to perform a financial audit of the Teaching Support to the Field Epidemiology Training Program managed by the Cayetano Heredia Peruvian University, under USAID/Perú's Child Survival Action Project No. 527-0285 from September 18, 1989 to December 31, 1992. Our audit was performed in accordance with generally accepted auditing standards and the "Government Auditing Standards" of the U.S. Comptroller General (1988 revision) and accordingly included such tests of the accounting records and such other procedures as we considered necessary to determine whether:

The fund accountability statement for the period September 18, 1989 to December 31, 1992 presents fairly, in all material respects, the financial position of the Field Epidemiology Program managed by the Peruvian University Cayetano Heredia, and costs reported as incurred and reimbursed by USAID/Perú for the period from September 18, 1989 to December 31, 1992 are allowable, allocable and reasonable in accordance with the agreement terms, and applicable laws and regulations.

The internal control structure of the Peruvian University Cayetano Heredia is adequate to manage the Program.

The Peruvian University Cayetano Heredia complied with the agreement terms and applicable laws and regulations which could affect the program's goals and incurred costs.

The scope of our work comprised :

Selective review of documentation related to the program, accounting records, and evaluations of the internal control structure.

Review of hiring procedures applied by the program.

Examination of the fund accountability statement of the program, including amounts budgeted by categories taken as a whole and costs incurred during the period being audited.

RESULTS OF AUDIT

As a result of our audit of the Field Epidemiology Program managed by the Peruvian University Cayetano Heredia, USAID/Perú's Project N° 527-0285 for the period September 18, 1989 to December 31, 1992, we noted the following conditions :

The program's accounting system and filing system are not adequately designed and implemented to provide accurate and timely accounting data and support for transactions.

Fund accountability statement.

This statement was prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting distinct from generally accepted accounting principles.

The audit findings disclosed questionable costs amounting to US\$128,902. In our opinion, except for the quantified effect of questioned costs, the fund accountability statement for the period September 18, 1989 to December 31, 1992 presents fairly the financial activities of the Program and costs incurred and disbursed by USAID/Perú for the period from September 18, 1989 to December 31, 1992.

Internal control structure.

In planning and performing our audit of the fund accountability statement we considered the current internal control structure of the Peruvian University Cayetano Heredia in order to determine our auditing procedures for the purpose of expressing our opinion on such statement.

The significant areas of control that we have evaluated included but were not limited to the adequacy of the accounting systems, bank accounts and controls to ensure that charges to the program are adequately supported. As part of our evaluation we obtained an understanding of transactions and we assessed control risk.

As a result of our selective tests we noted reportable conditions under the standards of the American Institute of Certified Public Accountants such as:

- . There was no budget system for the management of the program and the accounting system was deficient.
- . There was a lack of an adequate filing system.
- . No indirect cost rate has been established for the allocation of administrative costs paid to the University.

In our opinion, these conditions could adversely affect the accuracy of the fund accountability statement and management's assertions regarding the fund accountability statement.

Compliance with agreement terms and applicable laws and regulation.

Based on our tests of compliance, in our opinion, the Peruvian University Cayetano Heredia did not comply in all material respects with the agreement terms and applicable laws and regulations. Material instances of noncompliance are summarized as follows :

- . Specifications included in the Implementation Letter N° 23 were not fulfilled.

There is no evidence of the adequate fulfillment of responsibilities by the Ministry of Health officials in regard to control and approvals of payments to professors and recipients of scholarships.

Counterpart contributions

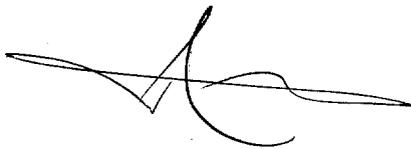
The counterpart contributions of the Project N° 527-0285 as a whole are the responsibility of the Ministry of Health. The Peruvian University Cayetano Heredia was not required to provide counterpart contributions, as explained in Implementation Letter N°23; it is for this reason that the examination of such contributions is not applicable.

Follow-up of prior audit recommendations.

We have not verified compliance with prior audit recommendations because it was not applicable since the Field Epidemiology Program has not been subjected to prior audits.

COMMENTS OF THE UNIVERSITY

With respect to the findings in this audit report, the University commented that most of the objections were valid and actions would be taken to implement the recommendations in the report. Most of these recommendations have been put into practice. However, the University expressed disagreement with several of the recommendations as shown in Annex 2 of this report.



MARCOS A. CHACALIAZA CEVALLOS
Contador Pública Colegiado
Matricula No. 2783

Panez, Chacaliza, Barrera S.C
Miembro de RSM International

AUDIT OF THE TEACHING SUPPORT TO THE FIELD EPIDEMIOLOGY TRAINING PROGRAM MANAGED BY THE PERUVIAN UNIVERSITY CAYETANO HEREDIA UNDER USAID/PERU'S CHILD SURVIVAL ACTION PROJECT USAID/PERU PROJECT N° 527-0285, FOR THE PERIOD SEPTEMBER 18, 1989 TO DECEMBER 31, 1992.

REPORT ON FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the Teaching Support to the Field Epidemiology Training Program managed by the Peruvian University Cayetano Heredia under USAID/Perú's Child Survival Action Project 527-0285 from September 18, 1989 to December 31, 1992. The fund accountability statement is the responsibility of the Peruvian University Cayetano Heredia management. Our responsibility is to express an opinion on the 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 about whether the fund accountability statement is free of material misstatement. 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 account principles used and significant estimates made by the University as well as evaluating the overall fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We do not have a continuing education program to fully satisfies the requirement set forth in Chapter 3, paragraph 6 of U.S. Government Auditing Standards. Nor do we have an external quality control review by an unaffiliated audit organization as required by Chapter 3, paragraph 46 of these standards. However our organization provides annual training programs and our working papers are subject to quality review by R.S.M. International. For these reasons, we believe that our departure from U.S. Government Auditing Standards is not material.

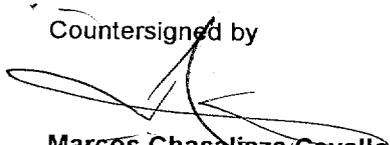
As described in note 2, the funds accountability statement was prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting distinct from generally accepted accounting principles.

As explained in Note 4, the accompanying fund accountability statement includes administrative costs charged in excess of budgeted amounts totalling US\$180 and unsupported costs totalling US\$128,722 related to scholarships and professors' fees (US\$110,817) and administrative costs (US\$17,905).

In our opinion, the fund accountability statement audited by us, presents fairly, in all material respects, the income and costs incurred and disbursed by USAID/Perú for the Field Epidemiology Program managed by the Peruvian University Cayetano Heredia, USAID/Perú Project N°527-0285, for the period September 18, 1989 to December 31, 1992 on the accounting basis described in Note 2.

This report is intended solely for the use of the United States Agency for International Development -USAID and the Peruvian University Cayetano Heredia. 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



Marcos Chacaliza Cevallos (partner)
Peruvian Public Accountant
Registration N° 2783

Panez Chacaliza, Barreda S.C.
Miembro de RSM International

Lima Perú

May 10, 1994

FIELD EPIDEMIOLOGY TRAINING PROGRAM

USAID/PERU Project N° 527-0285-managed by
The Peruvian University Cayetano Heredia

Fund Accountability Statement
from September 18, 1989 to December 31, 1992

	Questionable Cost				Reference to findings
	Budget US\$	Execution US\$	Questioned US\$	Unsupported US\$	
INCOME					
Funds received from USAID	172.800	133.160	0	0	
DISBURSEMENTS					
Professors' fees	48.000	45.194	0	45.194 ***	*** Finding 11
Recipients of scholarships	96.000	65.623	0	65.623 ***	*** Finding 11
Administrative expenses	28.800	22.343	180 *	17.905 **	* Finding 9 ** Finding 10
Total Disbursements	<u>172.800</u>	<u>133.160</u>	<u>180</u>	<u>128.722</u>	
Fund balance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
Total questionable cost		<u>128.902</u>			
		=====			

AUDIT OF THE TEACHING SUPPORT TO THE FIELD EPIDEMIOLOGY TRAINING PROGRAM MANAGED BY THE PERUVIAN UNIVERSITY CAYETANO HEREDIA UNDER USAID/PERU'S CHILD SURVIVAL ACTION PROJECT USAID/PERU PROJECT N° 527-0285, FOR THE PERIOD SEPTEMBER 18, 1989 TO DECEMBER 31, 1992.

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

1. Activities

The Peruvian University Cayetano Heredia is a nonprofit institution, established for the purpose of educating professionals in science and medicine.

On the basis of a primary cooperation agreement signed in 1987 with the Ministry of Health (Ministerio de Salud) concerning teaching support for the development of "Field Epidemiology Training Program", the program is intended to train human resources in field epidemiology providing them with knowledge and skills applicable to national reality so as to make them ready to participate in the direction of service areas activities, and teaching and research within the public health programs.

The program provided two years of training to health professionals with groups of six to twelve participants enrolled annually for four consecutive years.

In accordance with Implementation Letter No.23., USAID funds were granted periodically in the form of advances (remittances) in local currency, on the basis of budget requirements for three months. The amount of the advance was determined based on actual cash flow needs.

Liquidations of costs incurred were presented on a monthly basis.

Peruvian University Cayetano Heredia was not required to provide counterpart contributions.

2. Accounting Policies

The university has applied the following accounting policies in the preparation of the fund accountability statement.

The fund accountability statement was prepared on the basis of cash receipts and disbursements

Income and expenses were recorded when incurred.

Accruals were made neither for liabilities nor for other contingencies.

3. **Currency used in operations**

As established in the Implementation Letter N°23, funds have been received, disbursed and recorded in local currency. Liquidations were made in U.S. dollars converted at the exchange rate prevailing at the time the advances were disbursed by USAID. The exchange rates applied during the period September 18, 1989 to December 31, 1992 fluctuated from I/.12,400, I/.13,020, I/.14,300, I/.20,900, I/.33,000, I/.110,000, I/.445,000, I/.435,000, I/.445,000, I/M.0.57, I/M.0.54, I/M.0.56, I/M.0.64, I/M.0.83, I/M.0.84, I/M.0.95, I/M.0.97.

4. **Questionable costs**

Those costs not considered to be appropriate to be credited to the program under the agreement terms, and applicable laws and regulations.

Questionable costs amount to US\$128,902 and comprises mainly the following :

	<u>Amount</u> US\$
Administrative costs charged in excess over what was budgeted	180 See finding 10
Unsupported costs-scholarships and professors' fees	110,817 See finding 11
Unsupported costs-administrative	<u>17,905</u> See finding 9 128,902 =====

5. **Tax situation**

Disbursements made in the name of the Field Epidemiology Program, managed by the Peruvian University Cayetano Heredia are not subject to income tax and general sales tax, because they were made on account of professors' fees and recipients of scholarships. However, the payment of applicable taxes and social contributions have been duly performed by the university, acting as a retention agent in accordance with current legal regulations.

AUDIT OF THE TEACHING SUPPORT TO THE FIELD EPIDEMIOLOGY TRAINING PROGRAM MANAGED BY THE PERUVIAN UNIVERSITY CAYETANO HEREDIA UNDER USAID/PERU'S CHILD SURVIVAL ACTION PROJECT USAID/PERU PROJECT N° 527-0285, FOR THE PERIOD SEPTEMBER 18, 1989 TO DECEMBER 31, 1992.

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the Teaching Support to the Field Epidemiology Training Program managed by the Peruvian University Cayetano Heredia under USAID/Perú's Child Survival Action Project 527-0285 from September 18, 1989 to December 31, 1992. and have issued our report dated May 10, 1994 and expressed a qualified opinion.

We do not have a continuing education program to fully satisfies the requirement set forth in Chapter 3, paragraph 6 of U.S. Government Auditing Standards. Nor do we have an external quality control review by an unaffiliated audit organization as required by Chapter 3, paragraph 46 of these standards. However our organization provides annual training programs and our working papers are subject to quality review by R.S.M. International. For these reasons, we believe that our departure from U.S. Government Auditing Standards is not material.

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) revisión. 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 fund accountability statement of the Field Epidemiology Program managed by the Peruvian University Cayetano Heredia, we took into consideration the internal control structure 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.

The University is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by the university 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 the university 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 the university's authorization and recorded properly to permit the preparation of the fund accountability statement in accordance with the basis of accounting described in Note 2 to the 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 operation 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 :

- Budget and financial aspects.
- Receipt and management of funds.

For all the internal control structure categories listed above we obtained an understanding of the design of 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 that we considered to be reportable conditions under the 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 university's ability to record, process, summarize, and report financial data consistent with the assertions of the university in the fund accountability statement. These reportable conditions are the following :

The university did not adequately use its administrative infrastructure to manage matters related to Project N°527-0285. We observed the following :

The accounting system did not permit periodic and timely preparation of the fund accountability statement.

Documentation related to the project was not properly safeguarded and it was maintained outside the pertinent files of the program for an unnecessary period of time.

No annual audits were conducted on the program.

There was no budget system for the program and the accounting system was deficient.

There is no written evidence of periodical reconciliations between the amounts stated in the records of the program and those of USAID/PERU.

The accounting department of the university did not fulfill preventive functions in regard to responsibilities assumed by the university in regard to the project.

Lack of Manuals of Organization and Procedures.

The administrative costs that the university charges the project, 20% of the project disbursements, are based neither on a rate of indirect costs nor on prior studies, nor supported with adequate documentation. The Implementation Letter N°23 of Project 527-0285 and sub-agreement signed with the university and the Ministry of Health do not establish this obligation.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements do 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.

However, we consider that none of the reportable conditions described above is a material weakness.

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.

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

Countersigned by



Marcos Chacaliza Cevallos (partner)
Peruvian Public Accountant
Registration N° 2783

Panez, Chacaliza, Barrera S.C
Miembro de RSM International

Lima Perú

May 10, 1994

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AUDIT OF THE TEACHING SUPPORT TO THE FIELD EPIDEMIOLOGY TRAINING PROGRAM MANAGED BY THE PERUVIAN UNIVERSITY CAYETANO HEREDIA UNDER USAID/PERU'S CHILD SURVIVAL ACTION PROJECT USAID/PERU PROJECT N° 527-0285, FOR THE PERIOD SEPTEMBER 18, 1989 TO DECEMBER 31, 1992.

INTERNAL CONTROL STRUCTURE

AUDIT FINDINGS

1. Failure to regularly prepare the fund accountability statement.

Condition

The university does not prepare a fund accountability statement for the program summarizing amounts budgeted by categories and special items, funds received from USAID/PERU for each period, and costs reported as incurred by the program during the period.

Criteria

The fund accountability statement should include the program funding concerning the amounts received from USAID/PERU less incurred costs, which should reconcile with balances of cash on hand or in banks.

Effect

Without accurate and timely financial information, it is difficult for program management to effectively manage the project, which increases the possibility that project goals will not be achieved.

Cause

The university's accounting system and the program do not have accounting software to help them prepare the fund accountability statement.

Recommendation

The program's accounting system should be capable of preparing periodic and timely fund accountability statements to permit periodical reconciliation to USAID/Peru's accounting records.

2. Lack of a complete and well-organized filing system.

Condition

The university did not have an adequate filing system to maintain documents to support liquidation vouchers, we initially found approximately US\$32,000 of liquidation vouchers which did not have corresponding supporting documents. The university eventually provided original support documentation for US\$32,000.

Criteria

The university should have designed and put into operation a filing system to ensure that original source documents are maintained and safeguarded along with their corresponding liquidation vouchers.

Effect

Without a system to maintain and safeguard original source documents, management is unable to determine if costs charged to the program are allowable, allocable, and reasonable.

Cause

The university did not have effective supervision and follow-up systems to maintain supporting documentation for expended funds.

Recommendation

The university and program management should design and implement a document control system to ensure that an program expenditures and corresponding liquidation vouchers are adequately supported by appropriate source documents.

3. No prior audit was conducted of the University

Condition

No previous periodical audits have been conducted of the university as a whole in order to evaluate the internal control system.

Criteria

Every entity receiving funding from third parties has to account for such funding and present audited information by independent public accountants in order to guarantee the reliability of the information provided.

Effect

The university was not able to identify and address internal control and accounting problems prior to the beginning of the program.

Cause

Control responsibilities were not fully assumed by the implementing entities of the project in order to foresee, schedule and finance annual audits.

Recommendation

The direction of the entity and of the program should take the necessary action to program and conduct annual audits of the program as well as the implementing entity so as to satisfy the requirements established by the entity itself, the participant entities and agreements.

4. There was no budget system for the program and the accounting system was deficient.

Condition

During our examination of the program we noted no budget system to control its operations. There was no internal control budget containing essential items in detail and for manageable time periods. Transactions of the program were recorded on an accounting basis but there are no clear and defined cost elements.

Criteria

The program should have a detailed budget system and accounting system to guarantee the timely and correct recording of transactions in accordance with the standard provisions.

Effect

Noncompliance with regulations under the program. This situation resulted in a fund accountability statement prepared on the basis of documentation taken at 100%.

Cause

Officials in charge of the program do not know the "Standard Provisions" related to budget systems as established in Exhibit 2, "Exhibit of Standard Regulations for the Agreement of the Project of Donation."

The internal control environment of the program and the university was weak.

Recommendation

The university should design and implement a budget and accounting system which facilitates the program's operations related to USAID. That system should comprise a periodical analysis of significant variations between what was budgeted and what was executed.

5. There is no written evidence of periodical reconciliations between the amounts stated in the records of the program and those of USAID/PERU.

Condition

During the audit period, the university did not conduct periodic reconciliations of advances and liquidations between what was stated in the records of the program and those of USAID/PERU.

Criteria

Periodical reconciliations in regard to the management of the program funds with USAID/PERU should have been performed and written evidence of such work should have been kept.

Cause

The officials of the program were not aware of this control procedure.

Effect

This condition weakened the internal control system and increased the possibility program funds could have been used for other than program purposes.

Recommendation

The program should implement procedures to periodically reconcile the accounting records with those of USAID/PERU, keeping written evidence of such work.

6. During the time period that the program was in force, no written evidence was kept of the procedures followed in the preparation of bank reconciliations.

Condition

During our examination, we found no evidence of monthly bank reconciliations. Additionally, there is no evidence of the use of a check register from the bank showing individual deposits and checks.

Criteria

The program should have established adequate procedures to prepare and record bank reconciliations.

Effect

Bank reconciliations of the program's checking accounts have not been provided, which weakens internal control and increases the risk that program funds could have been misused.

Cause

University management did not consider it necessary to implement reconciliation procedures.

Recommendation

The university should design and implement policies and procedures for the preparation and recording of bank reconciliations of the programs related to USAID/PERU.

7. There was no system to compute the indirect cost rate for the program

Condition

Subagreement signed by the university and the Ministry of Health and the Implementation Letter N°23 of Project N°527-0285 established a fixed rate of 20% to cover indirect administrative costs of the university. However, the university did not establish an accounting system to determine the actual amount of indirect costs allocable under the terms of the agreement.

Criteria

Indirect administrative costs should be supported at indirect cost rates that are based upon actual accounting data.

Effect

The fixed rate of 20% to cover administrative costs that the university charges the program is not supported neither on a technical nor on a documentary basis and otherwise unallowable and unallocable costs might have been charged to the program.

Cause

There is not an adequate accounting system to permit establishing the actual rate of indirect costs.

Recommendation

The university should design and implement an accounting system to identify and collect indirect costs into an indirect cost pool and to compute an indirect cost rate to properly assign indirect costs to the direct costs of the programs related to USAID/PERU.

8. Lack of an updated and approved organization and procedures manual.

Condition

The university has not adopted an updated and approved manual of organization and functions. The manual provided on March 24, 1994 in regard to the Administrative Vice-Rector does not include functions related to the administration of projects and programs. Also the university does not have published policies and procedures defining the functions of the accounting department.

Criteria

For the management of administrative operations of the Administrative Vice-Rector and the management of programs and projects, it is necessary to have an updated manual of organization functions and procedures to establish responsibilities of each unit and area involved.

Effect

Responsibilities of supervision and control of the economic, financial and accounting operations of the program have not been adequately defined, resulting in a lack of assurance that the program is being managed properly in accordance with applicable laws and regulations.

Cause

University management did not consider it necessary to publish organization responsibilities and procedures concerning the management of administrative and accounting operations.

Recommendation

The university should publish organization and procedure manuals to conduct its operations and the operations of future programs related to USAID/PERU.

AUDIT OF THE TEACHING SUPPORT TO THE FIELD EPIDEMIOLOGY TRAINING PROGRAM MANAGED BY THE PERUVIAN UNIVERSITY CAYETANO HEREDIA UNDER USAID/PERU'S CHILD SURVIVAL ACTION PROJECT USAID/PERU PROJECT N° 527-0285, FOR THE PERIOD SEPTEMBER 18, 1989 TO DECEMBER 31, 1992.

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the Teaching Support to the Field Epidemiology Training Program managed by the Peruvian University Cayetano Heredia under USAID/Perú's Child Survival Action Project 527-0285 from September 18, 1989 to December 31, 1992. and have issued our report dated May 10, 1994 in which we expressed a qualified opinion.

We do not have a continuing education program to fully satisfies the requirement set forth in Chapter 3, paragraph 6 of U.S.Government Auditing Standards. Nor do we have an external quality control review by an unaffiliated audit organization as required by Chapter 3, paragraph 46 of these standards. However our organization provides annual training programs and our working papers are subject to quality review by R.S.M. International. For these reasons, we believe that our departure from U.S. Government Auditing Standards is not material.

We conducted our audit in accordance with generally accepted auditing standards and the "Government Auditing Standards" (1988 revision) 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 fund accountability statement is free of material misstatement.

The Direction of the program is responsible for compliance with the terms of the agreement and laws and regulations applicable to the Field Epidemiology Program managed by the Peruvian University Cayetano Heredia. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of compliance by the Field Epidemiology Program managed by the Peruvian University Cayetano Heredia 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 expressed no such opinion.

Material instances of noncompliance are failures to follow requirements, or violations or prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the fund accountability statement. The result of our tests of compliance disclosed the following instances of noncompliance :

The Field Epidemiology Program is a sub-agreement between the University and the Ministry of Health and approved by USAID/Perú. Through this subagreement and Implementation Letter N°23 responsibilities of the officials of the program and the Ministry of Health were established. Some of these responsibilities were not fully fulfilled, which are described as follows:

- . Incomplete supporting documentation concerning monthly liquidations.
- . Lack of evidence of supervision and approval by the official of the Ministry of Health to perform payments.

We considered these material instances of noncompliance in forming our opinion about whether the fund accountability statement for the period September 18, 1989 to December 31, 1992 of Program of Field Epidemiology managed by Peruvian University Cayetano Heredia presents fairly, in all material respects, its financial position in accordance with Agreement terms and in conformity with the basis of accounting described in Note 2 to the fund accountability statement, and this report does not affect our opinion on the fund accountability statement.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the Peruvian University Cayetano Heredia 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 the Peruvian University Cayetano Heredia had not complied, in all material respects, with those provisions.

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

Countersigned by



Marcos Chacaliza Cevallos
Peruvian Public Accountant
Registration N° 2783

Panez, Chacaliza Barreda S.C
Miembro de RSM International

Lima Perú

May 10, 1994

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AUDIT OF THE TEACHING SUPPORT TO THE FIELD EPIDEMIOLOGY TRAINING PROGRAM MANAGED BY THE PERUVIAN UNIVERSITY CAYETANO HEREDIA UNDER USAID/PERU'S CHILD SURVIVAL ACTION PROJECT USAID/PERU PROJECT N° 527-0285, FOR THE PERIOD SEPTEMBER 18, 1989 TO DECEMBER 31, 1992.

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

AUDIT FINDINGS

9. Existence of questionable costs amounting to US\$17,905.17

Condition

Administrative costs amounting to US\$17,905.17 charged to the program are supported with receipts which do not constitute adequate documentation. These receipts identify neither the person nor the unit who receives the fund. They have not been issued on a chronological and sequential basis. This is summarized as follows :

ADMINISTRATIVE COSTS							
Voucher N°	Receipt N°	Date	Period	Check N°	Exch rate	Amount S/.	Amount US\$
527-90 2675	12706	20.03.90	Mar 1990	887190	0.0209	15.00	720.34
527-90 3082	12724	05.06.90	April 1990	887195	0.033	17.57	532.36
527-90 3083	12723	05.06.90	May 1990	887196	0.033	27.95	846.97
527-91 0056	13867	20.08.90	Jun and Jul 1990	056613	0.110	220.00	2,000.00
527-91 0664	13895	26.10.90	Aug and Set 1990	056629	0.445	860.00	1,932.59
527-91 1283	14121(1)	21.12.90	Oct 1990	056647	0.435	442.00	1,016.09
527-91 1284	14122(1)	21.12.90	Nov. 1990	056648	0.435	442.00	1,016.09

(1) This receipt was wrongly filled out, the bank referred to does not correspond to the program.

<u>Voucher N°</u>	<u>Receipt N°</u>	<u>Date</u>	<u>Period</u>	<u>Check N°</u>	<u>Exch rate.</u>	<u>Amount S/.</u>	<u>Amount US\$</u>
527-91 1675	14153	21.02.91	Dec.1990 Jan.1991	056667	0.57	1,020.00	1,789.47
527-91 2048	14173	19.03.91	Feb.1991	056684	0.56	336.00	600.00
527-91 2236	14181	15.04.91	Mar 1991	136451	0.56	676.00	1,207.14
527-91 2538	0857	17.05.91	April 1991	136469	0.56 0.64	561.20	294.64 619.06
527-91 2793	0879	17.06.91	May 1991	S/N	0.64 0.83	726.80	257.81 676.87
527-91 3245	0109	31.07.91	Jun 1991	136500	0.83 0.84	782.00	198.79 734.52
527-91 0209	0451	16.09.91	Jul and Aug 1991	136156	0.84 0.83	1,435.20	196.43 1,530.36
527-91 0855	9037	19.11.91	not stated	136550	0.83 0.95	830.00	198.80 700.00
527-92 0988	1208	10.12.91	Oct and Nov. 1991	765601	0.95	<u>960.00</u>	<u>836.84</u>
						<u>9,351.77</u>	<u>17,905.17</u>

Criteria

Supporting documentation should be formal receipts issued by the Treasury Office of the university on a chronological and sequential basis, in accordance with current internal accounting control practices in Peru.

Effect

Unallowable or unallocable costs may have been charged to the project.

Cause

Lack of a uniform administrative procedure system for the control of funds by the university.

Recommendation

- a) The amount of US\$17,905.17 should be reimbursed to the funding entity if it is not supported with adequate documentation.
- b) The university should design and implement a procedures manual to control, record and report funds and ensure compliance

10. Questioned budgeted costs expended in excess amounting to US\$179.54

Condition

Administrative cost paid to Peruvian University Cayetano Heredia (UPCH) exceed the budgeted amount by US\$179.54. Individual questioned disbursements are detailed as follows:

Administrative cost received in excess.

<u>Voucher</u>	<u>Reference</u>	<u>Basis of Liquidation. Calculation</u> US\$	<u>Administrative Costs</u>		
			<u>State</u> US\$	<u>Should State</u> US\$	<u>Difference</u> US\$
527-90-1735	Liquidation Dec.89/Jan.90	7,043.01	1,408.60	673.12	(735.48)
527-90-2134	Liquidation Feb. 1990	4,265.73	853.15	1,522.80	669.65
527-91-1675	Liquidation Dec.90/Jan.91	8,589.47	1,717.89	1,789.47	71.58
527-91-2048	Liquidation Feb. 1991	4,429.33	885.86	600.00	(285.86)
527-91-2236	Liquidation March. 1991	4,600.00	920.00	1,207.14	287.14
527-91-2538	Liquidation April 1991	4,325.36	865.07	913.70	48.63

<u>Voucher</u>	<u>Reference</u>	<u>Basis of Liquidation. Calculation US\$</u>	<u>Administrative Costs</u>		
			<u>State US\$</u>	<u>Should State US\$</u>	<u>Difference US\$</u>
527-91-2793	Liquidation May 1991	4,375.96	875.19	934.68	59.49
527-91-3245	Liquidation June 1991	4,458.33	891.67	933.31	41.64
527-92-0209	Liquidation Jul 1991	8,645.78	1,729.16	1,726.79	(2.37)
527-92-0855	Liquidation September 1991	4,368.43	873.68	898.80	25.12
		----- 55,101.10 =====	----- 11,020.27 =====	----- 11,199.81 =====	----- 179.54 =====

Criteria

According to the Implementation Letter N° 23, the program budget for the Peruvian University Cayetano Heredia administrative costs is US\$28,800. This amount is 20% of the US\$144,000 assigned to cover professor fees and recipients of scholarships.

Effect

These disbursements amounting to US\$179.54 exceed what was budgeted and are unallowable costs.

Cause

Lack of adequate administrative control to manage the budget.

Recommendation

The program should carefully control compliance with the agreement terms and implement controls to manage charges against budget items in order to ensure that budget line items are not exceeded.

11. There is no adequate written evidence of work performed by teachers and students.

Condition

Work performed by teachers and students' training is not adequately supported. The university does not have documentation supporting classes given by teachers of the Field Epidemiology Training Program (PREC).

Criteria

Classes given by teachers and corresponding students' attendance should have a control system to adequately document the training provided.

Effect

The university is in noncompliance with standards and regulations related to the teaching administration and accordingly questionable costs amounting to US\$110,117 corresponding to US\$45,194 paid to teachers and US\$65,623 in students scholarships result from the lack of supporting documentation.

Cause

The program administration did not take appropriate measures for the control of activities related to the engagement signed with the Ministry of Health.

Recommendation

The university administration should implement a control system in regard to documentation of classes given by teachers and students' attendance.

12.Lack of complete supporting documentation and preparation of required liquidation documents.

Condition

In some liquidation vouchers required documents were either missing or not prepared in accordance with USAID/PERU Implementation Letter No. 23.

<u>Voucher No</u>	<u>Liquidation</u>	<u>F1 Form</u>	<u>F2 Request of Certif. and Liqui.</u>	<u>F3 Summary of Costs for Comp.</u>	<u>F4 Correl-lative list of costs</u>
527-91-1675	Dec.90 Jan.91	X			
527-92-0855	Sept. 1991		X	X	X
527-90-1735	Dec.89 Jan.90	X	X	X	X
527-90-2134	Febr. 1990	X	X	X	X
527-91-2236	March 1991	X	X	X	X

Criteria

Implementation Letter N°23 - 2 requires that certain liquidation documents be prepared and submitted with original source documents to USAID/PERU to liquidate advances or claim reimbursement.

Effect

This resulted in noncompliance with the terms established in Implementation Letter N° 23, and makes it more for management to review and approve expenditures which increases the possibility that unallowable costs could be charged to the program.

Cause

The university did not establish an adequate system of documentation processing and document filing.

Recommendation

Management must design and implement procedures to ensure that required documents are prepared, submitted and maintained in accordance with the terms of the agreement.

13. No approval of the Ministry of Health (Ministerio de Salud) representative for the certification of liquidations.

Condition

Liquidation forms N°2 "Certification for the Liquidation" were not authorized by the Ministry of Health representative as required by Implementation Letter N° 23.

Criteria

Implementation Letter N° 23 in the seventh paragraph on required information to make liquidation of costs, establishes that liquidation form N°2 will be certified by the authorized representative of the Ministry of Health.

Effect

The noncompliance with this requirement weakens internal control, making it more difficult for the Ministry of Health to manage the program and ensure that claimed costs are appropriate.

Cause

The university administration did not take prevention measures in regard to what was required under Implementation Letter No. 23

Recommendation

The university should implement internal control procedures to ensure that liquidation forms include the approval signature of the Ministry of Health representative.

14. The Office of Epidemiology did not authorize payments to professors and scholarship recipients .

Condition

From April to December 1990 and January to December 1991, the coordinator of the program requested that payments be made to professors and scholarship recipients without the authorization of the General Office of Epidemiology Ministry of Health.

Criteria

According to information dated March 22, 1994 provided by the coordinator of the program, the General Office of Epidemiology (OGE) is responsible for controlling the performance and attendance of professors and scholarship recipients and therefore should approve all payments to professors and scholarship recipients.

Effect

This condition did not allow management to maintain necessary control over program participants which increased the possibility that unallowable costs may have been charged to the program.

Cause

Program management did not establish effective procedures to ensure that payments to program participants were appropriately reviewed and approved.

Recommendation

The coordinator of the program of the Peruvian University Cayetano Heredia should establish a control system in conjunction with the General Office of Epidemiology to review the appropriateness and approve all payments to professors and financial aid provided to scholarship recipients.

AUDIT OF THE TEACHING SUPPORT TO THE FIELD EPIDEMIOLOGY TRAINING PROGRAM MANAGED BY THE PERUVIAN UNIVERSITY CAYETANO HEREDIA UNDER USAID/PERU'S CHILD SURVIVAL ACTION PROJECT USAID/PERU PROJECT N° 527-0285, FOR THE PERIOD SEPTEMBER 18, 1989 TO DECEMBER 31, 1992.

ANNEX N° 1

LISTS OF RECOMMENDATIONS

Internal control structure

1. The program's accounting system should be capable of preparing periodic and timely fund accountability statements to permit periodical reconciliation to USAID/Peru's accounting records.
2. The university and program management should design and implement a document control system to ensure that program expenditures and corresponding liquidation vouchers are adequately supported by appropriate source documents.
3. The direction of the entity and of the program should take the necessary action to program and conduct annual audits of the program as well as the implementing entity so as to satisfy the requirements established by the entity itself, the participant entities and agreements.
4. The university should design and implement a budget and accounting system which facilitates the program's operations related to USAID. That system should comprise a periodical analysis of significant variations between what was budgeted and what was executed.
5. The program should implement procedures to periodically reconcile the accounting records with those of USAID/PERU, keeping written evidence of such work.
6. The university should design and implement policies and procedures for the preparation and recording of bank reconciliations of the programs related to USAID/PERU.
7. The University should design and implement an accounting system to identify and collect indirect costs into an indirect cost pool and to compute an indirect cost rate to properly assign indirect costs to the direct costs of the programs related to USAID/PERU.

8. The university should publish organization and procedure manuals to conduct its operations and the operations of future programs related to USAID/PERU.

Compliance with agreement terms and applicable laws and regulations

9.Questionable

a) The amount of US\$17,905.17 should be reimbursed to the funding entity if it is not supported with adequate documentation.

b) The university should design and implement procedures manual necessary to control, record and report funds and ensure compliance.

10. The program should carefully control compliance with the agreement terms and implement controls to manage charges against budget items in order to ensure that budget line items are not exceeded.

11. The university administration should implement a control system in regard to classes given by teachers and students' attendance.

12. Management must design and implement procedures to ensure that required documents are prepared and submitted in accordance with the terms of the agreement.

13. The university should implement internal control procedures to ensure that liquidation forms include the approval signature of the Ministry of Health representative.

14. The coordinator of the program of the Peruvian University Cayetano Heredia should establish a control system in conjunction with the General Office of Epidemiology to review the appropriateness and approve all payments to professors and financial aid provided to scholarship recipients.

AUDIT OF THE TEACHING SUPPORT TO THE FIELD EPIDEMIOLOGY TRAINING PROGRAM MANAGED BY THE PERUVIAN UNIVERSITY CAYETANO HEREDIA UNDER USAID/PERU'S CHILD SURVIVAL ACTION PROJECT USAID/PERU PROJECT N° 527-0285, FOR THE PERIOD SEPTEMBER 18, 1989 TO DECEMBER 31, 1992.

ANNEX N° 2

PERUVIAN UNIVERSITY CAYETANO HEREDIA

ADMINISTRATIVE VICE-RECTOR OFFICE

COMMENTS

With respect to the report prepared by the audit firm Panez, Chacaliaza, Barreda & Asoc. on the administrative aspects of the Field Epidemiology Program (Child Survival Project, USAID/PERU Project N°527-0285) managed by the Peruvian University "Cayetano Heredia" under sub-contract with the Ministry of Health and countersigned by USAID.

Most of the objections are valid and actions will be taken to implement the recommendations made by the audit firm, although most of such recommendations have been put into practice.

However, we do not agree with the following :

2. Lack of a complete and well-organized filing system.
The information required in regard to liquidations was completely provided.
7. There was no system to compute indirect costs rate for the program.
The 20% indirect administrative cost (overhead) rate was established under the agreement signed with the Ministry of Health (PIL-23). Find enclosed a copy of the budget which includes the 20% for administrative costs.
8. Lack of supporting liquidation documentation in the files of the program.
Liquidations were submitted to USAID with all required forms, otherwise the university would not have been able to obtain subsequent disbursements. Additionally we have provided supplementary documentation, upon the auditors request.

9. Questionable costs :

With respect to the documentation justifying administrative costs, we should express the following :

Sequential numbering : Receipts issued from January to March 1990 and from November to December 1991 were recorded by the University "Central Cash" on a chronological and sequential basis. From May 1990 to October 1991 income was centralized via the Office of Projects. This office issued a different kind of receipt using the university's letterhead.

Accounting : Administrative income was recorded on an accounting basis under the costs account of aforementioned project and recorded as income of the university as evidenced by the accompanying auxiliary ledger.

Verification of the collection of checks : Checks drawn on behalf of the project and charged to the income account of the university were deposited in the university's own current account. Showing evidence of this, we enclose the copy of some deposits confirming our explanations.

We believe that on the basis of these explanations we have satisfied the request of the audit firm. We are willing to provide any further information you may consider necessary.

10. Questioned costs incurred in excess of budgeted costs amounting to US\$179.54. With respect to administrative costs incurred in excess as examined by the firm Panez, Chacaliaza, Barreda & Asoc. Sociedad Civil, it should be noted that the university received US\$179.54 in excess on the item of administrative costs. This represents 0.13% of funds received from USAID/PERU. This difference may be accounted for by the exchange rate difference at the moment USAID/PERU processes liquidations and/or limitations on the part of the UPCH when verifying funds requested and those executed.

12. No approval by the Ministry of Health representative for the certification of liquidations. This is the responsibility of the Ministry of Health personnel as they verify and approve the documentation before it is sent to USAID. The Ministry of Health sends this documentation to USAID.

13. The Office of Epidemiology did not authorize payments to professors and scholarship recipients.

During the first months of the program until March 1990, the General Office of Epidemiology (GOE) of the Ministry of Health provided the university in writing the attendance records of the professors and scholarship recipients on a monthly basis. Later on the payment was requested by telephone, and during that period no complaint has been received from professors, scholarship recipients or the head of the GOE.

Auditor's Reply to the Comments of the Peruvian University Cayetano Heredia.

2. Lack of a complete and well-organized filing system.

The Peruvian University Cayetano Heredia requested an extension to find and provide required information.

We maintain our finding.

7. There was no system to compute indirect costs rate for the program.

With respect to the 20% of administrative costs, it was established under the agreement signed with the Ministry of Health (PIL 23). PIL 23 establishes a budget which includes 20% for administrative costs.

The agreement signed with the Ministry of Health shows no evidence of a technical study supporting such percentage.

We maintain our finding.

9. Questionable costs amounting to US\$17,905

- Sequential numbering : No uniform income controls.

- Accounting : Information is only verifiable in the auxiliary ledgers of the program. We required information on a general ledger level.

- Verification of the collection of checks : Supporting documentation does not contain bank statements of the university's general checking account, which should show deposits of collected funds.

We maintain our finding since the support is not consistent.

10. Questioned costs incurred in excess of budgeted costs amounting to US\$179.54.

The explanation does not disprove our corresponding chart to invalidate our finding.

We maintain our finding.

12. Lack of supporting documentation in the files of the program.

The program officials did not establish an adequate system to file the documentation submitted to USAID/PERU. During our field work we could not find the documentation referred to in the finding.

We maintain our finding.

13. No approval by the Ministry of Health representative for the certification of liquidations.

The program has not supported its comment.

We maintain our finding.

14. The Office of Epidemiology did not authorize payments to professors and scholarship recipients.

Communications in writing by the Program Coordinator do not contain any reference to such authorizations by the Office of Epidemiology. Therefore our finding is pertinent.