

PD-ABN-628

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**Ernst & Whinney**

THE MAE FAH LUANG FOUNDATION  
HILLTRIBE YOUTH TRAINING AND VILLAGE DEVELOPMENT  
GRANT NO. 493-0296-G-SS-3012-00

INITIAL REVIEW - ITEM 4

**Ernst & Whinney**

THE MAE FAH LUANG FOUNDATION  
UNDER THE PATRONAGE OF H.R.H. THE PRINCESS MOTHER  
HILLTRIBE YOUTH TRAINING AND VILLAGE DEVELOPMENT PROJECT  
INITIAL REVIEW - ITEM 4

TABLE OF CONTENTS

1. SCOPE OF WORK
2. PROJECT OUTLINE
3. PROJECT AUDIT
4. INITIAL DISCUSSION
5. ACCOUNTING SYSTEM AND INTERNAL CONTROL REVIEW
6. COMPLIANCE - TERM OF GRANT AGREEMENT
7. RECOMMENDATION
  - 7.1 SHORTCOMINGS
  - 7.2 IMPROVEMENTS

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### 1. SCOPE OF WORK

The objective is to review financial and internal control of the PVO currently implementing a USAID-funded project, namely the Mae Fah Luang (Thai Hill Crafts) Foundation. Specifically this encompasses:-

1. Study and evaluation of accounting system and internal control procedures as they relate to the costs and implementation of USAID project.
2. Test of accounting systems and controls through verification of financial reports received for reimbursement by USAID.
3. Verification of financial report in respect of compliance with terms of grant agreement.

### 2. PROJECT OUTLINE

PROJECT TITLE : Hilltribe Youth Training and Village Development (Grant No. 493-0296-G-SS-3012-00)

CONTRACTOR : Thai Hill Crafts Foundation (THCF)  
(now known as "The Mae Fah Luang Foundation" Under the Patronage of H.R.H. The Princess Mother)  
195 Phayathai Road, Bangkok 10500

PROJECT SUM : Baht 3,625,073

PERIOD : March 17, 1983 to January 31, 1986

PROJECT OBJECTIVE : In the main consist of :-

1. To encourage the hilltribe youth to help improve living conditions in their villages.

2. To provide hilltribe youth an opportunity to work with people outside their community.
3. To promote the hilltribe people's vocational skills which include farming, traditional and ethnic handicrafts, etc.

PROJECT SITE : Chiengrai province, north of Thailand

3. PROJECT AUDIT

Audits are carried out by the auditors of Department of Technical and Economic Cooperation (DTEC) on a quarterly or semi-annual basis on supporting documents submitted to DTEC. Reports issued for the period of April 1983 to June 1985 reported "no findings".

Work performed by the project auditors as explained to us consist of but are not limited to the followings:-

1. Vouching between supporting documents, books of account and quarterly financial statements.
2. Verification as to compliance with grant agreement.
3. Issuance of audit report.

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- 3 -

## 4. INITIAL DISCUSSION

Initial discussion with the project personnel of The Mae Fah Luang Foundation was carried out on 13th May, 1986 and the field work in respect of evaluating and testing of accounting system and internal control and verification of financial report were conducted during 14th May, 1986 to 12th June, 1986. Final discussion was held on 26th June, 1986. It is to be noted that the examination was based on discussion and documents as filed in Bangkok without any visit to project site at Chiengrai.

## 5. ACCOUNTING SYSTEM AND INTERNAL CONTROL REVIEW

Receipt and disbursements system at THCF were documented and reviewed. Compliance and substantive tests were carried out on a sampling basis on the following representing 72 percent of total expenditure as at 31st January, 1986 :

Description	Total Budgeted	Total Spending	Verification	
			Baht	%
1. PERSONNEL				
a. Personnel	428,500.00	377,725.00	142,780.00	38
b. Student Expenses				
Advance student	872,000.00	899,039.00	627,581.00	70
General student	618,000.00	813,404.00	604,523.00	74
c. Dormitory facility	25,000.00	25,000.00	-	-
d. Construction of training building	520,000.00	520,000.00	373,832.00	72
2. ADULT COMMUNITY LEADERS TRAINING	45,780.00	44,870.00	42,900.00	96
3. VILLAGE DEVELOPMENT PROJECT	226,000.00	256,782.00	149,639.00	58
4. PURCHASE SAANEL GOATS	61,000.00	-	-	-
5. CONTINGENCY	84,720.00	85,090.00	85,090.00	100

Description	Total	Total	Verification	
	Budgeted	Spending	Baht	%
6. AID FUND				
a.(1) Student's health improvement and transportation	35,500.00	25,000.00	25,000.00	100
(2) 30 bicycles	60,000.00	60,000.00	60,000.00	100
b. Physical education	45,000.00	45,000.00	45,000.00	100
c.(1) Reading room improvement	27,000.00	26,999.75	26,999.00	100
(2) Furniture and lighting	16,300.00	17,500.00	17,500.00	100
d. Training in animal husbandry	25,839.00	25,839.00	25,839.00	100
e. Training in agriculture and basic carpentry	113,750.00	51,675.00	51,675.00	100
f. Training center facilities improvement	326,976.00	394,976.00	354,048.00	90
g. Hilltribe handicrafts	36,000.00	27,360.00	27,360.00	100
h. Teaching aids	57,708.00	26,450.00	26,450.00	100
	3,625,073.00	3,722,709.75	2,686,216.00	72

(NOTE : FIGURES EXTRACTED FROM QUARTERLY FINANCIAL REPORT/QUARTERLY STATUS  
OF FUND AS AT 31ST JANUARY, 1986.)

Personnel cost and student allowance of Baht 1,198,890 included in the verification sample were supported by signature of recipients only. Due to common practice and practicality and unless there is evidence to the contrary is deemed to be bona fide payments.

Based on this assumption, deficiencies encountered are as follows:-

1. No segregation of AID and non-AID funds maintained at project site (Chiengrai province). The project fund transferred to the site from Bangkok was mingled with foundation fund and deposited to individual bank account of Khun Nakhon Pongnoi, project director.
2. No segregation of duties in respect of custody, execution and authorisation for disbursement of AID fund at Chiengrai whereby all the functions are vested with Khun Nakhon Pongnoi, project director.
3. Verification of disbursements reveals that Baht 1,001,173.50 (37% of amount verified) are not supportive and can be summarised as follows:-

<u>Particular</u>	<u>Baht</u>
(i) No documentation	103,777.00
(ii) No external documentation	735,334.25
(iii) Recipient cannot be ascertained	162,062.25
	1,001,173.50
	1,001,173.50

Furthermore, no receiving report or signed delivery order acknowledging receipt by the Foundation are available.

Specific examples are as follows:-

No documentation

Payments are not supported by any internal or external documentation:

	<u>Baht</u>
1. Purchase of construction material	20,000.00
2. Purchase of construction material	29,120.00
3. Purchase of construction material	17,857.00

No external documentation

Payments are not supported by any external documentation. Of these, Baht 575,362.25 are supported by unidentifiable recipient signature with Baht 159,972 without any signature of recipient.

	<u>Baht</u>
1. Dental treatment for 50 students at Baht 500 each	25,000.00
2. Purchase of furniture and lighting	17,500.00
3. Purchase of slide projector	19,000.00

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Recipient cannot be ascertained

Supported by unofficial cash receipt with unidentifiable recipients:

	<u>Baht</u>
1. Purchase of 30 bicycles Baht 2,000 each	60,000.00
2. Purchase of 30 blankets for adult community leader training April 1984	5,550.00
3. Purchase of general student uniform August 1984	23,200.00
4. Cost of 6 bicycles - August 1984	9,600.00

6. COMPLIANCE - TERM OF GRANT AGREEMENT

Based on the samples selected there has been compliance with the terms of grant agreement. The exceptions are as follows:-

6.1 Over 15 percent variance among line items based on total spending of Baht 3,722,709.75 versus total budget of Baht 3,625,073.

<u>Description</u>	Approved	Actual	<u>Under (over)</u>	
	<u>Budget</u>	<u>Spending</u>	<u>Baht</u>	<u>%</u>
1. General student	618,000	813,404	(195,404)	(32)
2. Training in agriculture and basic carpentry	113,750	51,675	62,075	55
3. Students' health improvement and transportation	35,500	25,000	10,500	30
4. Training center facility improvement	326,976	394,976	(68,000)	(21)
5. Hilltribe handicraft	36,000	27,360	8,640	24
6. Teaching aids	57,708	26,450	31,258	54

(NOTE : FIGURES EXTRACTED FROM QUARTERLY FINANCIAL STATEMENT REPORT/  
QUARTERLY STATUS OF FUND AS AT 31ST JANUARY, 1986.)

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- 8 -

6.2 Disbursement not in approved budget nor is there written approval from USAID

<u>Description</u>	<u>Baht</u>	<u>Allocated to account</u>
1. Purchase of water warmer equipment and gas cooker	9,942	Training center facilities
2. Purchase of automatic water pump and water warmer equipment in January 1984	10,880	Training center facilities

6.3 Items which are budgeted for and funds transferred but not purchased accordingly are as follows:

<u>Description</u>	<u>Baht</u>
1. One bio-gas digester 2 meters in width (with pipes to the kitchen stove)	6,000
2. Saanel goats	61,000

6.4 Purchase at a price exceeding budgeted cost as follows:

<u>Description</u>	<u>Baht</u>	
	<u>Budgeted Cost</u>	<u>Actual Cost</u>
Teaching Aids:		
Slide projector	11,000	19,000
Television set	39,200	44,744.80

7. RECOMMENDATION

Finding and recommendations resulting from work performed are categorised into two types as follows:-

- (i) Shortcomings or deficiencies of accounting system and internal control
- (ii) Improvements in order to facilitate and strengthen the existing accounting and internal control systems

7.1 SHORTCOMINGS OR DEFICIENCIES OF ACCOUNTING SYSTEM AND INTERNAL CONTROL

7.1.1 Separation of AID Fund

AID fund transferred to project site are deposited in private account of Khun Nakhon Pongnoi (project director) and is mixed with non-AID fund (i.e foundation's fund). Disbursements are subsequently allocated by Bangkok Office.

In order to facilitate control over AID and non-AID funds and to comply with Standard Provision of grant agreement, AID fund should be deposited in a separate bank account and disbursements for goods and services should be made from this account. The account should not also be in the name of individuals but be in the project or foundation/project name.

7.1.2 Segregation of Duties

The custody of funds including disbursement functions (e.g. authorisation and making payment) are performed by Khun Nakhon Pongnoi (project director).

It is recommended that the function of custody, execution and authorisation be separated and assigned to Khun Nakhon Pongnoi and another staff such that the work of one would act as a check on the other.

7.1.3 Payment - Supporting Documents

With reference to 5, in order to substantiate payments the followings are recommended:-

- (i) Third party evidence (i.e. official receipt) containing details of name or trade-name and location of the entity issuing the receipt, date, amount, kind, description, quantity and price of goods be obtained.
- (ii) Should this not be feasible (e.g. payment to individual), photocopy of identification card including signatory of recipient be obtained.

7.1.4 Payment Voucher Form

At present, payment voucher do not provide adequate information whereby the following is not stated on the vouchers.

1. Name of account to be debited
2. Payment voucher number
3. Name of project

7.1.5 Correction of Errors

The present procedure is that quarterly financial report/quarterly status of fund report as submitted to USAID are prepared from books of account and supporting documents. Such quarterly financial report/quarterly status of fund report are not in agreement with books of account in which it was explained to us that this was a result of correction of certain errors. However no corrections were made to the books of account.

It is recommended that where errors are discovered correction be made to the books of account in order to ensure that it is in agreement with quarterly report.

7.1.6 Disbursement - Term of Grant Agreement

Ancillary to 6 is that disbursement of certain line items are not in accordance with terms of grant agreement and amendments made without prior consent/approval.

Disbursements not in accordance with approved budget should be made against prior approval from USAID.

7.1.7 Supporting Document - Details

Details of payments supporting payment vouchers are not clear in certain cases as exemplified by the followings:

<u>Description</u>	<u>Baht</u>	<u>Remark</u>
1. Payment for lavatory materials	6,000	Date of receipt not clear (i.e. 4th September B.E. 2527 or 2522)
2. Purchase of water warmer with equipment	7,179	Correction of date of receipt with no endorsement of ratification.

Even though it could not be established as to the source of correction, it is recommended that details of receipt supporting payments be clearly stated and that should there be correction a new receipt should be asked for or the supplier be asked to endorse the correction.

7.1.8 Evidence of Goods and Services Received

At present, no receiving reports or acknowledgement of receiving of goods on delivery order are available such that there is no proof as to the receipt of benefits.

It is recommended that receiving reports or acknowledgement on delivery order be prepared in order to substantiate that benefits had been received.

7.2 IMPROVEMENTS

7.2.1 Payment Cancellation

Documents supporting payments are not cancelled or otherwise stamped "PAID" after payments are made.

Cancellation should be made immediately on supporting documents after payments had been made in order to prevent resubmission.

7.2.2 Bank Reconciliation

Comparision between bank statements and cash book are carried out by Khun Chutinand, assistant project director, and are not documented.

In order to facilitate correctness of cash and bank transactions, documentary bank reconciliation should be prepared and submitted to the treasurer for further review.

7.2.3 Official Receipt

Certain official receipts obtained are made out not in the name of the Thai Hill Crafts Foundation or Mae Fah Luang Foundation but under the name as explained to us as used at the project site. (มูลนิธิบ้านปางิ้ว)

It is recommended that official foundation's name be used in order to substantiate that payments are by the foundation and thus leaving no room for doubt and confusion.

7.2.4 Capital Expenditure

No register is maintained for durable assets acquired during the period. Details as to kind and description, date of acquisition and value be set out in fixed asset register and periodically checked against the actual fixed assets by independent personnel (i.e. accountant).

7.2.5 Cash and Bank Report

At present, liaison concerning fund balance and receipt of fund transfer between Bangkok office and project site are made only verbally. Improvement can be made by introducing fund reporting system of which "Cash and Bank Report" (an example is attached) be prepared on timely basis (i.e. monthly) by project-site personnel and submitted to Bangkok office for checking and following up.

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PROJECT NAME.....

CASH AND BANK REPORT

FOR THE MONTH OF .....

	BANK A/C#.....	CASH	TOTAL
BALANCE FROM PRIOR MONTH	xx	xx	xx
TRANSFER FROM BKK. DURING.....	xx		
WITHDRAWAL FROM BANK	(xx)	xx	-
DISBURSEMENT DURING .....	(xx)	(xx)	(xx)
VOUCHER # .....TO #.....			
	-----	-----	-----
BALANCE AS AT .....	xx	xx	xx
	=====	=====	=====
REMARKS .....			
.....			
.....			
.....			

PREPARED BY .....

(PROJECT DIRECTOR)

AGREED BY .....

(ACCOUNTANT)