

PA-ABW-893



AGENCY FOR INTERNATIONAL DEVELOPMENT

ASIA AND NEAR EAST BUREAU

**REVIEW OF FINANCIAL MONITORING
FOR SELECTED REGIONAL PROJECTS**

**Cooperative Marine
Technology - Phase III**

FINAL REPORT

JANUARY 30, 1989



PRICE WATERHOUSE

Price Waterhouse



January 30, 1989

Ms. Susan Hudec, ANE/DP/F
U.S. Agency for International Development
Washington, D.C.

Dear Ms. Hudec:

Re: Contract No. OTR-0000-I-00-6168-00
Delivery Order No. 14
Review of Financial Reporting Systems

We are pleased to provide you with our final report of the review of financial reporting systems of selected regional projects, performed in accordance with the delivery order referenced above.

We wish to express our appreciation for the assistance provided to us by ANE Bureau and Office of Financial Management personnel during the course of this review. We have enjoyed working with you and hope to have an opportunity to assist you in the future.

Yours very truly,

Price Waterhouse

TABLE OF CONTENTS



Executive Summary

I. Introduction

II. ANE Bureau Financial Monitoring System for Regional Projects

III. Irrigation Support Project for Asia and the Near East

IV. Asian-American Free Labor Institute

V. Life Cycle Health Education Project
Village Inreach Program - Handicap Services

VI. Regional Population Project

VII. Regional Cooperation: Cooperative Marine Technology Phase III

VIII. Regional Cooperation: Patterns of Technology Exchange and Cooperation in Agriculture

IX. Regional Cooperation: Regional Epidemiology and Control of Vector Borne Diseases

X. Regional Cooperation: Cooperative Arid Lands Agriculture Research Program

XI. Regional Technical Services in Vitamin A

XII. Medical Supplies - Poland

EXECUTIVE SUMMARY

A. BACKGROUND

The nature of regionally funded projects is such that reporting, both financial and technical, becomes an indispensable tool for monitoring project implementation. Project Officers of the Asia and Near East (ANE) Bureau in Washington are assigned the responsibility of managing projects which, most times, are located on another continent. As a result, their responsibilities are shifting from the traditional, hands-on project management role to a less involved, project administration role. With increasing budget cuts, ANE Project Officers have limited opportunities to make project site visits. It is, therefore, imperative that they are supplied with adequate financial information both to substantiate project progress and to monitor financial management.

ANE Project Officers are expected to assume an active financial management role for each project in their portfolio. They must provide administrative approval for vouchers and financial reports submitted by each implementing organization, based on the financial detail contained in these submissions. However, it is clearly apparent that the quality of financial information reported by an implementing organization is directly dependent on that organization's accounting and financial reporting system. The ANE Bureau must, therefore, be confident that an implementing organization's internal controls and systems and procedures are adequate from the standpoint of accountability and in compliance with AID regulations and agreement provisions.

B. OBJECTIVES

The specific objectives of this effort were as follows:

- o to assess the financial reports/vouchers submitted by selected implementing organizations to determine compliance with grant, cooperative agreement, contract, and participating agency service agreement provisions and adequacy of information provided for financial management oversight
- o to evaluate the capability of selected implementing organizations to account and report for AID funds based on a review of the organizations' internal controls and systems and procedures
- o to assess the impact of subagreements on the AID monitoring of financial activity
- o to develop standard financial reporting provisions to be included in regional project obligation documents
- o to provide recommendations to improve the ANE Bureau's overall system of financial monitoring of regionally funded projects.

C. METHODOLOGY

Our methodology was both internally and externally directed. The principal tasks performed included:

- o thorough review of related AID Handbooks and guidelines to familiarize ourselves with applicable AID regulations
- o extensive interviews with AID staff
- o comprehensive review of the financial reporting system of each of the regional projects selected by the ANE Bureau for review.

Based on our findings, we developed recommendations to improve the systems in place at the ANE Bureau as well as at each implementing organization.

D. APPLICABILITY TO AID REGIONAL AND CENTRAL BUREAUS

Although this review was performed for the ANE Bureau, and recommendations are directed toward improving ANE regional project reporting, we believe that AID should follow similar procedures for each of its Bureaus. We would encourage AID's Office of Financial Management, in cooperation with the Office of Procurement, to review our recommendations in order to incorporate them into AID's standard financial reporting requirements.

E. CONCLUSIONS

1. IMPLEMENTING ORGANIZATION SYSTEMS

Our conclusions with regard to the implementing organizations reviewed are summarized below.

- o Our review did not reveal any material weaknesses in the internal control and accounting systems in place at each organization reviewed.

In our report, however, we provide procedural recommendations aimed at enhancing existing systems.

- o In most implementing organizations, we noted some noncompliance with financial reporting and billing procedures as defined in the obligating document and AID regulations. We also noted that the provisions in the obligating document with respect to billing and reporting should be expanded to provide the ANE Project Officer with additional information needed to perform his/her financial management duties.

We provide detailed recommendations to improve the financial reporting and billing for each project.

- o We noted noncompliance with other obligating document provisions, such as obtaining ANE PO approval on subcontracts.

We document our findings and present recommendations to ensure compliance with obligating document provisions.

2. ANE BUREAU MONITORING SYSTEM

Our conclusions with respect to the ANE Bureau's monitoring system are summarized below.

- o ANE Project Officers have similar project financial management responsibilities regardless of the type of contracting mechanism used. They must, therefore, be provided with sufficient financial information to enable them to perform their duties.

We provide recommendations on the specific financial management role that should be played by the project officer, which includes guidelines on:

- the preparation of a project's financial plan, which is the basis for billing and reporting
 - the type of financial analysis that should be performed on an ongoing basis
 - fundamental characteristics of financial reports, regardless of the type of contracting mechanism used.
- o AID Handbooks generally have incomplete guidance for each of the contracting mechanisms reviewed with respect to billing and financial reporting procedures. Obligating documents must, therefore, include additional guidance with respect to billing and financial reporting.

We provide detailed recommendations on financial reporting and billing procedures for each of the contracting mechanisms reviewed, e.g. PASAs, RSSAs, Grants, Cooperative Agreements, and buy-ins.

- o The internal control system of regional projects is based upon functions performed by the implementing organization Project Manager, AID's Office of Financial Management, and the ANE Bureau. The ANE Bureau's current control techniques need to be strengthened.

We have identified the critical control techniques to be used by Project Officers in performing their duties and provide recommendations on how these might be strengthened.

- o Insufficient guidance on financial reporting and other procedures exists in the AID Handbooks with regard to the use of subagreements. The ANE Bureau must, therefore, follow certain procedures to ensure that subcontracting does not hinder prudent management.

We provide recommendations on procedures and guidelines when projects include a subcontracting component.

I. INTRODUCTION

A. BACKGROUND

The nature of ANE regionally funded projects is such that reporting, both financial and technical, becomes an indispensable tool for monitoring project implementation. Project Officers of the Asia and Near East (ANE) Bureau in Washington are assigned the responsibility of managing a project which, most times, is located on another continent. As a result, their responsibilities are shifting from the traditional, hands-on project management role characteristic at the Mission level, to a less involved, project administration role which must be performed in Washington, D.C. With increasing budget cuts, ANE Project Officers of regionally funded projects have limited opportunities to make project site visits. It is, therefore, imperative that they are supplied with adequate financial information both to substantiate project progress and for financial management oversight.

ANE Project Officers of regionally funded projects are expected to assume an active financial management role for each project in their portfolio. They must provide administrative approval for vouchers and financial reports submitted by each implementing organization, based primarily on the financial detail contained in these submissions. However, it is clearly apparent that the quality of financial information reported by an implementing organization is directly dependent on that organization's accounting and financial reporting system. The ANE Bureau must, therefore, be confident that an implementing organization's internal controls and systems and procedures are adequate from the standpoint of accountability and in compliance with AID regulations and agreement provisions.

B. OBJECTIVES

The specific objectives of this effort were as follows:

- o to assess the financial reports/vouchers submitted by selected implementing organizations to determine compliance with grant, cooperative agreement, contract, and participating agency service agreement provisions and adequacy of information provided for financial management oversight
- o to evaluate the capability of selected implementing organizations to account and report for AID funds based on a review of the organizations' internal controls and systems and procedures
- o to assess the impact of subagreements on the AID monitoring of financial activity
- o to develop standard financial reporting provisions to be included in regional project obligation documents
- o to provide recommendations to improve the ANE Bureau's overall system of financial monitoring of regionally funded projects.

C. METHODOLOGY

Our methodology included a comprehensive review of eleven regional projects in order to assess compliance with financial reporting requirements, adequacy of information provided for financial management oversight, and adequacy of financial systems and procedures, including subcontracting, at each implementing organization. The regional projects reviewed were selected by the ANE Bureau. They are listed in Exhibit I-A.

The analysis of selected regional projects enabled us to identify common problem areas that need to be addressed in the Bureau's financial monitoring system. In addition to the

EXHIBIT I-A

REGIONAL PROJECTS AND ORGANIZATIONS

PROJECT	IMPLEMENTING ORGANIZATION	AMOUNT OF FUNDING
Irrigation Support Project for Asia and the Near East	Camp Dresser & McKee, Int'l (head of consortium)	\$2,081,680
Asian-American Free Labor Institute	AAFLI	\$3,700,000
Life Cycle Health Education Project	Catholic Relief Services	\$948,500
Village Inreach Program - Handicap Services	Catholic Relief Services	\$887,180
Regional Population Project buy-ins:		
-Innovative Materials for Population Action	Population Reference Bureau	\$184,486
-Demographic Data for Development	East-West Population Institute	\$300,000
Cooperative Marine Technology - Phase III	New Jersey Marine Sciences Consortium	\$3,203,206
Patterns of Technology Exchange and Cooperation in Agriculture	OICD/USDA	\$3,019,646
Regional Epidemiology and Control of Vector Borne Diseases II	NIAID/NIH	\$1,381,666
Cooperative Arid Lands Agriculture Research Program	San Diego State University Foundation	\$9,250,000
Regional Technical Services in Vitamin A	OIH/DHHS	\$1,390,000
Medical Supplies - Poland	Project Hope	\$4,000,000

analysis of these projects, we also:

- o reviewed AID Handbooks 3, 12, 13, and 19 to familiarize ourselves with financial reporting requirements and procedures
- o reviewed related internal guidelines, memoranda and issue papers that related to regional projects
- o met with ANE Project Officers to determine their financial information needs and procedures for providing administrative approval of vouchers and fiscal reports
- o met with management in the Bureau's various divisions to understand their financial information requirements
- o met with personnel at AID's Office of Financial Management, Program Accounting and Finance Division (FM/PAFD) to determine their financial information needs and voucher processing procedures, their expectations of ANE Project Officers, and the information exchange between FM/PAFD and ANE
- o discussed AID reporting regulations with AID's Office of Contracting to ensure that our recommendations are in line with AID and OMB policy
- o assessed the application of the payments verification policy statements to regional projects
- o reviewed the internal control assessment for regional projects performed by the ANE Bureau to determine the extent of testing done, weaknesses noted and their resolution.

D. ORGANIZATION OF THIS REPORT

We have included in Sections III through XII of this report our findings and recommendations with regard to each project reviewed. In these sections, we also document the methodology employed and limitations encountered in each review. In Section II, we provide our findings and recommendations with regard to the ANE Bureau's financial monitoring system of regionally funded

projects, including recommendations for standard financial reporting provisions.

E. APPLICABILITY TO AID REGIONAL AND CENTRAL BUREAUS

The objectives of this review were to provide standard financial reporting requirements to be used by the ANE Bureau. However, we believe that the Agency should follow similar procedures in each of its Bureaus. We would encourage AID's Office of Financial Management, in cooperation with the Office of Procurement, to review our recommendations in order to incorporate them into AID's standard financial reporting requirements.

II. ANE BUREAU FINANCIAL MONITORING SYSTEM FOR REGIONAL PROJECTS

A. INTRODUCTION

The ANE Bureau regional project portfolio consists of a diverse collection of projects that are implemented in several sectors and across two or more countries. At the time of the merger of the Asia and Near East Bureaus in 1985, all non-bilateral projects were grouped as ANE regional projects. The regional projects focus primarily on regional cooperation between Israel and Egypt, population, environment and human resource development activities.

The very nature of regional projects makes them vulnerable from the standpoint of accountability. Although implemented overseas, management and implementation responsibilities rest in Washington. A system must, therefore, be put in place to decrease this vulnerability to an acceptable level.

A project implementation monitoring system should include two principal components:

- o technical performance monitoring to ensure conformance with the terms as defined in the scope of work
- o financial performance monitoring to ensure that expenditures are within the approved budget and that they are reasonable in light of project progress.

This review has focused on the financial management component of the ANE Bureau's monitoring system for regional projects. The principal tool of a financial monitoring system is the financial reports and vouchers that are produced by the implementing organization and submitted to AID. These reports and vouchers must contain adequate information to enable the ANE Project Officers to exercise prudent financial management over the regional projects for which they are responsible.

B. SCOPE AND OBJECTIVES

The purpose of this review was to assess the existing financial monitoring system for regional projects in order to determine whether it allowed for effective project financial management. The specific objectives were as follows:

- o to develop standard financial information requirements to be included in ANE regional project obligation documents
- o to assess the impact of subagreements on AID monitoring of financial activity
- o to provide recommendations to improve the ANE Bureau's system of financial monitoring of regionally funded projects.

C. METHODOLOGY

Our methodology was both internally (to AID) and externally directed. The principal tasks performed included:

- o a thorough review of related AID Handbooks and guidelines to familiarize ourselves with AID regulations
- o extensive interviews with AID staff
- o a comprehensive review of the financial reporting system of each of the regional projects selected by the ANE Bureau for review.

Based on our findings, we developed recommendations to improve the systems in place at the ANE Bureau as well as at each implementing organization.

D. CONCLUSIONS

As a result of our review, we have concluded the following:

- o ANE Project Officers have essentially the same financial management responsibilities regardless of the type of contracting mechanism used. They must, therefore, be provided with sufficient financial information to enable them to perform their duties.
- o AID Handbooks generally have incomplete guidance for each of the contracting mechanisms reviewed with respect to billing and financial reporting procedures. Obligating documents must, therefore, include additional guidance with respect to billing and financial reporting.
- o The internal control system of regional projects is based upon functions performed by the implementing organization Project Manager, AID's Office of Financial Management, and the ANE Bureau. The ANE Bureau's current control techniques need to be strengthened.
- o Insufficient guidance on financial reporting and other procedures exists in the AID Handbooks with regard to the use of subagreements. The ANE Bureau must, therefore, follow certain procedures to ensure that subcontracting does not hinder prudent management.

Our findings and recommendations with regard to these conclusions are detailed below. As indicated in Section I, although our recommendations are directed towards the ANE Bureau, they should be considered by the Agency overall.

E. FINDINGS AND RECOMMENDATIONS

1. Standards for Billing and Financial Reporting

Below we indicate some general observations and recommendations which apply to all projects. This is followed by

findings and recommendations for each of the contracting mechanisms reviewed, which include:

- o Participating Agency Service Agreements/Resource Support Service Agreements
- o Contracts
- o Grants/Cooperative Agreements
- o Buy-ins.

a. General Observations

Finding: ANE Project Officers essentially have the same financial management responsibilities for all types of contracting mechanisms

We noted that AID's internal control system places the responsibility of ensuring prudent project financial management upon the ANE Project Officers, regardless of the type of contracting mechanism used. We also noted that the voucher examiners at FM/PAFD must perform the same voucher review for all types of contracting mechanisms.

AID Handbook 13 states that Project Officers should make site visits as frequently as practical to review both project accomplishments and management systems. In addition, Project Officers must assume the responsibility for monitoring the implementing organization's audit plans during the course of project implementation and make the necessary amendments to the project's financial plan for auditing needs, if warranted. These guidelines are applicable to projects under all types of contracting mechanisms.

Recommendation:

Although we recognize that decreases in funding do not allow for frequent site visits, Project Officers of regional projects should adopt more of a Mission style approach to project financial management, within the constraints of being located in Washington. We recommend that ANE Project Officers perform a thorough review of financial reports and vouchers submitted by an implementing organization (IO) in order to ensure prudent financial management of U.S. assistance funds.

ANE Project Officers should obtain financial information to enable them to perform the following:

- o assess trends in spending
- o analyze rates of spending and utility of project funds
- o determine whether costs are within the approved financial plan
- o determine whether costs appear reasonable in light of prevailing market rates and project progress
- o review the cash management of the project
- o analyze existing pipeline in light of the remaining elements of the scope of work .
- o assess projected cash needs in light of upcoming project activities
- o evaluate the need for fiscal or compliance audits.

In the event that follow-up investigation is warranted, a site visit to the IO headquarters should be made by the Project Officer. For example:

- o if a participating agency's billing is not on a monthly or quarterly basis as required by AID, a review of that agency's billing procedures should be made

- o if a contractor requests reimbursement for non-expendable property, such as a computer, which appears to be greater than the competitive market price, a review should be made of that company's procurement system to ensure that it includes the securing of competitive bids.

To enable the ANE Project Officers to adequately perform their duties, we recommend that a training course be held for the Project Officers on financial controls. Although we noted that the internal control assessment of regional projects performed by the ANE Bureau indicated that Project Officers' training was commensurate with their responsibilities, we believe that additional training in basic financial management issues is warranted.

Finding: The approved financial plan is not always the basis for financial reporting

We noted in several instances that the financial plan included in an obligating document is not easily comparable to the financial data presented in a fiscal report or billing. We also noted that financial information requirements are not always compatible with the accounting system at the implementing organization (IO).

AID Handbook 13 indicates that the financial plan is the final expression of the program as approved by AID and should, therefore, be related to reporting of project performance. Handbook 13 also states that the obligating document should have a clear definition of expenditures as related to the implementing organization's accounting system. AID Handbook 3 indicates that AID generated reporting should be kept to a minimum with maximum use made of the IO's reporting system. We believe that these guidelines are applicable to all regional projects.

Recommendation:

Prior to preparing the obligating document for any type of contracting mechanism, the ANE Bureau should:

- o identify its information requirements
- o familiarize itself with the implementing organization's expenditure account classification.

The financial plan and reporting requirements can then be designed in a way that will meet the ANE Bureau's needs while being compatible with the IO's accounting system. The financial plan should be used as a management tool, and as such, should be kept as simple as possible while still encompassing all areas of project expenditures. As the accounting system of an organization reflects its official financial position, information reported to AID should be tracked and generated directly from that system.

Finding: Not all fiscal reports and vouchers include certain fundamental characteristics

We reviewed the Government Accounting Standards Board (GASB) Concepts Statement on Objectives of Financial Reporting and noted that any financial report on U.S. Government funds should include the following fundamental characteristics:

- o understandability -- reports should be expressed as simply as possible
- o reliability -- the system which generates the reports must be sound and the reports must be comprehensive to be reliable
- o relevance -- there should exist a logical relationship between the information reported and the purpose for which it is needed, and between the information

provided and the nature of the project

- o timeliness -- to be useful, information must be issued soon enough after reported events to affect decisions, such as the need for additional funding
- o consistency -- the accounting principles and reporting methods should remain the same to render a comparison among reporting periods more meaningful
- o comparability -- to be useful, information obtained by the Bureau from each organization should be presented in a similar manner.

Recommendation:

We recommend that the ANE Bureau ensure that these key characteristics are incorporated in the financial reporting of all regional projects.

For understandability, the fiscal reporting and billing should be done according to the approved financial plan.

For reliability, full disclosure should be made where appropriate, for example, identifying prior reporting period adjustments rather than including them in current expenditures.

For relevance, the financial plan and reporting should be as closely related to the program as practical. In projects where there are several discrete activities, such as the Regional Cooperation projects which include discrete research activities, the financial plan and reporting should be broken down by each activity. This will enable the Project Officer to assess the technical progress of a given activity with its cost.

For timeliness, financial reports should be submitted on at least a semi-annual basis, 30 days after the end of the reporting period. With Agency cuts in spending, the ANE Bureau is forced

to scramble for "deob" funds to support active projects, thereby making timely reporting of pipeline information essential.

For consistency, full disclosure should be made when accounting principles have changed, for example, if travel advances are no longer charged directly to the project but are treated as a receivable.

For comparability, the ANE Bureau should require the same type of information from each organization. This will enable the Project Officers to perform a similar analysis for each regional project as recommended above. In addition, it will facilitate generating internal reports, such as the Project Implementation Review reports.

b. PASA/RSSA

Finding: AID Handbook 12 guidelines on financial reporting and billing

We reviewed AID Handbook 12 which provides guidelines on Participating Agency Service Agreements (PASA) and Resource Support Service Agreements (RSSA). We noted the following:

- o although the billing guidelines require the inclusion of cumulative expenditures by financial plan in the SF 1080 or SF 1081 billing, they do not require the inclusion of budgeted amounts or prior period expenditures -- such information is essential for properly evaluating current expenditures
- o although the Handbook indicates that billings shall be done on a monthly or quarterly basis, it does not indicate the deadline for submission of the billings
- o the SF 1080/1081 includes budget line items which may not be consistent with a project's financial plan

- o the Handbook does not provide any guidelines on fiscal reporting.

In our review of two PASAs and one RSSA, we noted that billings were generally in arrears and were not done on a quarterly or monthly basis.

Recommendation:

We recommend that the ANE Bureau include additional billing guidelines in each PASA and RSSA which would require the reporting of budgeted amounts and prior period expenditures, according to the financial plan. Details on payments to subcontractors and billing adjustment disclosures should also be required. This will facilitate voucher review and analysis by both the ANE Project Officer and the voucher examiner at FM/PAFD.

We recommend that each PASA and RSSA specify that the due date of the billings be within 30 days after the end of the accounting period being billed. In addition, we suggest that AID reevaluate the SF 1080/SF 1081 with respect to the preprinted budget categories, since they may not agree with the project's financial plan.

We also recommend that the ANE Project Officers continuously follow-up with the participating agencies to ensure that project billings conform with AID regulations and PASA/RSSA provisions. Participating agencies must be made aware that delayed billings result in misstated pipelines and can seriously hamper requests for additional funding, which ultimately will effect the realization of program objectives.

With regard to fiscal reporting, we believe that the lack of reporting guidelines in Handbook 12 is a critical oversight.

Project billings should not be considered a substitute for fiscal reporting since they are not an adequate tool to be used by the Project Officers. Therefore, we recommend that specific financial reporting guidelines be included in each PASA and RSSA to require fiscal reporting on at least a semi-annual basis. Such reporting should be accompanied by a program performance report to enable the ANE Project Officer to evaluate both the project's technical achievements and fiscal performance. Financial information should be presented according to the approved financial plan and should include:

- o budgeted amounts
- o prior period expenditures
- o current period expenditures
- o cumulative expenditures
- o remaining balance
- o explanations to significant variances from budgeted to actual amounts
- o projected cash needs for the upcoming reporting period.

c. Contract

Finding: Inadequate AID guidelines on fiscal reporting and billing for projects implemented under direct contracts

We reviewed AID Handbook 19 which provides guidelines on billing requirements under direct contracts. We noted that although contractors are required to include budgeted and cumulative information by budget line item on the SF 1034 billing, they are not required to present prior amounts billed, details on payments to subcontractors and explanations to billing adjustments.

There does not appear to be any written AID guidelines on fiscal reporting requirements for projects funded under direct contracts.

Recommendation:

We recommend that the ANE Bureau include additional billing guidelines in each contract which would require the reporting of budgeted amounts and prior period expenditures, according to the financial plan. Details on payments to subcontractors and billing adjustment disclosures should also be required. This will facilitate voucher review and analysis by both the ANE Project Officer and the voucher examiner at FM/PAFD.

We also recommend that each contract include a requirement for a program performance report with accompanying fiscal data as described above for PASAs and RSSAs.

d. Grant/Cooperative Agreement

Finding: Inadequate use is made of the standard Financial Status (SF 269) and Federal Cash Transactions (SF 272) Reports

We reviewed the SF 269 and SF 272 reports which are AID's and OMB's standard financial reporting requirements for organizations funded under a grant or cooperative agreement. The financial information required in these reports is comprehensive. However, we noted that most recipients do not complete these reports according to instructions, rendering them inadequate for financial management purposes.

Regarding the SF 269 report (included as Exhibit II-A), we noted that most recipients do not report the financial status of

FINANCIAL STATUS REPORT

(Follow instructions on the back)

1. RECIPIENT ORGANIZATION (Name and complete address, including ZIP code)		3. FEDERAL AGENCY AND ORGANIZATIONAL ELEMENT TO WHICH REPORT IS SUBMITTED		2. FEDERAL GRANT OR OTHER IDENTIFYING NUMBER		OMB Approved No. 80-RO180		PAGE OF _____ OF _____ PAGES						
		4. EMPLOYER IDENTIFICATION NUMBER		5. RECIPIENT ACCOUNT NUMBER OR IDENTIFYING NUMBER		6. FINAL REPORT <input type="checkbox"/> YES <input type="checkbox"/> NO		7. BASIS <input type="checkbox"/> CASH <input type="checkbox"/> ACCRUAL						
		8. PROJECT/GRANT PERIOD (See instructions)			9. PERIOD COVERED BY THIS REPORT									
		FROM (Month, day, year)			TO (Month, day, year)		FROM (Month, day, year)			TO (Month, day, year)				
10. STATUS OF FUNDS														
		(a)	**	(b)	**	(c)	**	(d)	**	(e)	**	(f)	**	TOTAL (g)
a. Net outlays previously reported	\$			\$		\$		\$		\$		\$		\$
b. Total outlays this report period														
c. <i>Less:</i> Program income credits														
d. Net outlays this report period (Line b minus line c)														
e. Net outlays to date (Line a plus line d)														
f. <i>Less:</i> Non-Federal share of outlays														
g. Total Federal share of outlays (Line e minus line f)														
h. Total unliquidated obligations														
i. <i>Less:</i> Non-Federal share of unliquidated obligations shown on line h														
j. Federal share of unliquidated obligations														
k. Total Federal share of outlays and unliquidated obligations														
l. Total cumulative amount of Federal funds authorized														
m. Unobligated balance of Federal funds														
11. RECIPIENT EXPENSE	a. TYPE OF RATE (Place "X" in appropriate box) <input type="checkbox"/> PROVISIONAL <input type="checkbox"/> PREDETERMINED <input type="checkbox"/> FINAL <input type="checkbox"/> FIXED			12. CERTIFICATION I certify to the best of my knowledge and belief that this report is correct and complete and that all outlays and unliquidated obligations are for the purposes set forth in the award documents.						SIGNATURE OF AUTHORIZED CERTIFYING OFFICIAL		DATE REPORT SUBMITTED		
	b. RATE		c. BASE		d. TOTAL AMOUNT		e. FEDERAL SHARE		TYPED OR PRINTED NAME AND TITLE		TELEPHONE (Area code, number and extension)			
13. REMARKS: Attach any explanatory deemed necessary or information required by Federal sponsoring agency in compliance with governing legislation.														

** By project input

EXHIBIT II-A

INSTRUCTIONS

Please type or print legibly. Items 1, 2, 3, 6, 7, 9, 10d, 10e, 10g, 10i, 10l, 11a, and 12 are self-explanatory. Specific instructions for other items are as follows:

Item	Entry	Item	Entry
4	Enter the employer identification number assigned by the U.S. Internal Revenue Service or FICE (institution) code, if required by the Federal sponsoring agency.	10c	Enter the amount of all program income realized in this period that is required by the terms and conditions of the Federal award to be deducted from total project costs. For reports prepared on a cash basis, enter the amount of cash income received during the reporting period. For reports prepared on an accrual basis, enter the amount of income earned since the beginning of the reporting period. When the terms or conditions allow program income to be added to the total award, explain in remarks, the source, amount and disposition of the income.
5	This space is reserved for an account number or other identifying numbers that may be assigned by the recipient.	10f	Enter amount pertaining to the non-Federal share of program outlays included in the amount on line e.
8	Enter the month, day, and year of the beginning and ending of this project period. For formula grants that are not awarded on a project basis, show the grant period.	10h	Enter total amount of unliquidated obligations for this project or program, including unliquidated obligations to subgrantees and contractors. Unliquidated obligations are: Cash basis—obligations incurred but not paid. Accrued expenditure basis—obligations incurred but for which an outlay has not been recorded. Do not include any amounts that have been included on lines a through g. On the final report, line h should have a zero balance.
10	The purpose of vertical columns (a) through (f) is to provide financial data for each program, function, and activity in the budget as approved by the Federal sponsoring agency. If additional columns are needed, use as many additional forms as needed and indicate page number in space provided in upper right; however, the totals of all programs, functions or activities should be shown in column (g) of the first page. For agreements pertaining to several Catalog of Federal Domestic Assistance programs that do not require a further functional or activity classification breakdown, enter under columns (a) through (f) the title of the program. For grants or other assistance agreements containing multiple programs where one or more programs require a further breakdown by function or activity, use a separate form for each program showing the applicable functions or activities in the separate columns. For grants or other assistance agreements containing several functions or activities which are funded from several programs, prepare a separate form for each activity or function when requested by the Federal sponsoring agency.	10j	Enter the Federal share of unliquidated obligations shown on line h. The amount shown on this line should be the difference between the amounts on lines h and i.
10a	Enter the net outlay. This amount should be the same as the amount reported in Line 10e of the last report. If there has been an adjustment to the amount shown previously, please attach explanation. Show zero if this is the initial report.	10k	Enter the sum of the amounts shown on lines g and j. If the report is final the report should not contain any unliquidated obligations.
10b	Enter the total gross program outlays (less rebates, refunds, and other discounts) for this report period, including disbursements of cash realized as program income. For reports that are prepared on a cash basis, outlays are the sum of actual cash disbursements for goods and services, the amount of indirect expense charged, the value of in-kind contributions applied, and the amount of cash advances and payments made to contractors and subgrantees. For reports prepared on an accrued expenditure basis, outlays are the sum of actual cash disbursements, the amount of indirect expense incurred, the value of in-kind contributions applied, and the net increase (or decrease) in the amounts owed by the recipient for goods and other property received and for services performed by employees, contractors, subgrantees, and other payees.	10m	Enter the unobligated balance of Federal funds. This amount should be the difference between lines k and i.
		11b	Enter rate in effect during the reporting period.
		11c	Enter amount of the base to which the rate was applied.
		11d	Enter total amount of indirect cost charged during the report period.
		11e	Enter amount of the Federal share charged during the report period. If more than one rate was applied during the project period, include a separate schedule showing bases against which the indirect cost rates were applied, the respective indirect rates the month, day, and year the indirect rates were in effect, amounts of indirect expense charged to the project, and the Federal share of indirect expense charged to the project to date.

the project according to the approved financial plan, but report only total expenditures. As a result, the report generally does not provide the ANE Project Officer with sufficient information on the activities and status of program funds. The purpose of the vertical columns (a - f) in the SF 269 report is to present financial information according to the approved financial plan. This information may be by program, function (cost element), or activity, depending upon how the financial plan has been designed. We also noted that line h - unliquidated obligations (obligations incurred by the recipient but not yet paid) and line m - unobligated balance of Federal funds (pipeline) tend to be completed incorrectly.

Our review indicated that the regional project grants and cooperative agreements do not consistently require copies of this report to be submitted to the ANE Project Officer. Although FM/PAFD forwards this report to the ANE Project Officer for administrative approval, we have found several instances whereby the Project Officer had not received copies as required.

Regarding the SF 272 report (included as Exhibit II-B), we noted that most recipients do not indicate the number of days in which the ending cash-on-hand will be expended (item 12 of the SF 272). Per AID regulations, if more than three days' cash requirements are on hand, an explanation should be provided in the "Remarks" section of the report. We also noted that advances to subcontractors are not always indicated as required. We found that many of the grants and cooperative agreements do not require the recipient to submit this report to the ANE Project Officer. In addition, although AID Handbook 19 states that FM/PAFD will forward a copy of this report to the ANE Bureau, this is not currently done.

FEDERAL CASH TRANSACTIONS REPORT

(See instructions on the back. If report is for more than one grant or assistance agreement, attach completed Standard Form 272-A.)

Approved by Office of Management and Budget, No. 85-RO182

2. RECIPIENT ORGANIZATION

Name :

Number and Street :

City, State and ZIP Code :

1. Federal sponsoring agency and organizational element to which this report is submitted

4. Federal grant or other identification number

5. Recipient's account number or identifying number

6. Letter of credit number

7. Last payment voucher number

Give total number for this period

8. Payment Vouchers credited to your account

9. Treasury checks received (whether or not deposited)

10. PERIOD COVERED BY THIS REPORT

FROM (month, day, year)

TO (month, day year)

3. FEDERAL EMPLOYER IDENTIFICATION NO. ▶

11. STATUS OF

FEDERAL

CASH

(See specific instructions on the back)

a. Cash on hand beginning of reporting period

\$

b. Letter of credit withdrawals

c. Treasury check payments

d. Total receipts (Sum of lines b and c)

e. Total cash available (Sum of lines a and d)

f. Gross disbursements

g. Federal share of program income

h. Net disbursements (Line f minus line g)

i. Adjustments of prior periods

j. Cash on hand end of period

\$

12. THE AMOUNT SHOWN ON LINE 11J, ABOVE, REPRESENTS CASH REQUIREMENTS FOR THE ENSUING

Days

13. OTHER INFORMATION

a. Interest income

\$

b. Advances to subgrantees or subcontractors

\$

14. REMARKS (Attach additional sheets of plain paper, if more space is required)

15.

CERTIFICATION

I certify to the best of my knowledge and belief that this report is true in all respects and that all disbursements have been made for the purpose and conditions of the grant or agreement

AUTHORIZED
CERTIFYING
OFFICIAL

SIGNATURE

DATE REPORT SUBMITTED

TYPED OR PRINTED NAME AND TITLE

TELEPHONE

(Area Code)

(Number)

(Exterior)

THIS SPACE FOR AGENCY USE

INSTRUCTIONS

Please type or print legibly. Items 1, 2, 8, 9, 10, 11d, 11e, 11h, and 15 are self explanatory, specific instructions for other items are as follows:

<i>Item</i>	<i>Entry</i>	<i>Entry</i>	<i>Item</i>
3	Enter employer identification number assigned by the U.S. Internal Revenue Service or the FICE (institution) code. If this report covers more than one grant or other agreement, leave items 4 and 5 blank and provide the information on Standard Form 272-A, Report of Federal Cash Transactions—Continued; otherwise:		employee's share of benefits if treated as a direct cost, interdepartmental charges for supplies and services, and the amount to which the recipient is entitled for indirect costs.
4	Enter Federal grant number, agreement number, or other identifying numbers if requested by sponsoring agency.	117	Enter the Federal share of program income that was required to be used on the project or program by the terms of the grant or agreement.
5	This space reserved for an account number or other identifying number that may be assigned by the recipient.	11i	Enter the amount of all adjustments pertaining to prior periods affecting the ending balance that have not been included in any lines above. Identify each grant or agreement for which adjustment was made, and enter an explanation for each adjustment under "Remarks." Use plain sheets of paper if additional space is required.
6	Enter the letter of credit number that applies to this report. If all advances were made by Treasury check, enter "NA" for not applicable and leave items 7 and 8 blank.	11j	Enter the total amount of Federal cash on hand at the end of the reporting period. This amount should include all funds on deposit, imprest funds, and undeposited funds (line e, less line h, plus or minus line i).
7	Enter the voucher number of the last letter-of-credit payment voucher (Form TUS 5401) that was credited to your account.	12	Enter the estimated number of days until the cash on hand, shown on line 11j, will be expended. If more than three days cash requirements are on hand, provide an explanation under "Remarks" as to why the drawdown was made prematurely, or other reasons for the excess cash. The requirement for the explanation does not apply to prescheduled or automatic advances.
11a	Enter the total amount of Federal cash on hand at the beginning of the reporting period including all of the Federal funds on deposit, imprest funds, and undeposited Treasury checks.	13a	Enter the amount of interest earned on advances of Federal funds but not remitted to the Federal agency. If this includes any amount earned and not remitted to the Federal sponsoring agency for over 60 days, explain under "Remarks." Do not report interest earned on advances to States.
11b	Enter total amount of Federal funds received through payment vouchers (Form TUS 5401) that were credited to your account during the reporting period.	13b	Enter amount of advance to secondary recipients included in item 11h.
11c	Enter the total amount of all Federal funds received during the reporting period through Treasury checks, whether or not deposited.	14	In addition to providing explanations as required above, give additional explanation deemed necessary by the recipient and for information required by the Federal sponsoring agency in compliance with governing legislation. Use plain sheets of paper if additional space is required.
11f	Enter the total Federal cash disbursements, made during the reporting period, including cash received as program income. Disbursements as used here also include the amount of advances and payments less refunds to subgrantees or contractors, the gross amount of direct salaries and wages, including the		

ll

Recommendation:

Since the ANE Project Officer provides administrative approval of project disbursements through the SF 269 report, adequate information must be presented to both justify this approval and render the report a valuable management tool. For prudent financial management of public funds, we recommend that the ANE Bureau ensure that the SF 269 is completed as required by AID and OMB Circular A-110. This can be accomplished by including instructions for report completion in the grant/cooperative agreement.

Financial information should be presented according to the financial plan. In the case where the project has discrete activities, this should be presented in the SF 269 report's vertical columns. A schedule should accompany the SF 269 report to provide a breakdown of the current period expenditures by cost element. In the case where there are no discrete activities, the vertical columns should present the cost elements of the financial plan. Presenting information in this manner will depict for each cost element or activity:

- o prior period expenditures (line a)
- o current period expenditures (line b)
- o cumulative expenditures to-date (line e)
- o accrued expenditures (line h)
- o cumulative accrued and actual expenditures (line k).

This information will enable the ANE Project Officer to adequately perform the financial management analysis described above.

Instructions for proper completion of the SF 272 report should also be included in each grant/cooperative agreement.

We also recommend that all grants and cooperative agreements specify that copies of both the SF 272 and SF 269 reports be sent by the recipient directly to the ANE Project Officer.

Finding: Program performance reports are not consistently required

We noted that program performance reports are not consistently required in grants and cooperative agreements. In addition, in projects where they are required, financial information is not always presented in support of the technical narrative.

Recommendation:

We recommend that each grant and cooperative agreement include the requirement for a program performance report to be submitted by the recipient on a semi-annual basis. Such a report is an essential tool for monitoring the project's technical progress. We also recommend that a summary financial schedule accompany the report to enable the ANE Project Officer to relate program achievements to the cost of those achievements. Given that the SF 269 and SF 272 reports will include comprehensive financial information if prepared correctly, the financial schedule in the semi-annual program performance report need include only the following:

- o total budget
- o total current period expenditures
- o total cumulative expenditures

- o remaining balance
- o projected cash needs for the upcoming six months
- o explanations to significant variances from budgeted to actual disbursements.

e. Buy-ins

Finding: ANE Project Officers do not receive adequate information for financial monitoring purposes

In our review of two buy-ins funded under the Regional Population Project funds, we noted that the ANE Bureau does not receive adequate information for effective financial monitoring of buy-in activities. Our findings and recommendations with regard to buy-ins are detailed in Section VI. In summary, we noted that:

- o S&T informal guidelines on information dissemination to the buying-in Bureau are inadequate
- o there do not appear to be formal AID guidelines on financial reporting with regard to buy-ins
- o ANE Project Officers generally do not obtain copies of financial reports submitted by the implementing organization
- o the financial plan in the buy-in amendment does not always include a breakdown of expenditures to be charged to ANE funds
- o the buy-in amendment generally does not include the financial reporting requirements of the ANE Bureau
- o although S&T Project Managers assume responsibility for project implementation, ANE Project Officers must still remain cognizant of and be held accountable for the financial status of each ANE funded buy-in.

Recommendation:

To ensure receipt of adequate financial information on buy-in activities, we recommend that the ANE Bureau include in each PIO/T for a buy-in amendment:

- o a financial plan of the proposed activity
- o reporting requirements of the ANE Bureau, which should be on at least a semi-annual basis.

In the case of buy-ins to grants or cooperative agreements, ANE may request a separate SF 269 report for each of their buy-ins and/or a semi-annual program performance report which would include a financial summary of the buy-in activity. In the case of buy-ins to other contracting mechanisms, the ANE Bureau should require a semi-annual program performance report with a financial schedule, as recommended above. However, in each case, the ANE Project Officer should coordinate with the S&T Project Manager to confirm overall project monitoring responsibilities.

2. Critical Controls of a Financial Monitoring System

The financial management and internal controls of regional projects revolve around three principal parties:

- o the implementing organization
- o AID's Office of Financial Management
- o the ANE Bureau.

Each party has a unique function to play and is essential for ensuring prudent financial management over U.S. assistance funds.

The Project Manager of the implementing organization (IO) is responsible for day-to-day project management, both technical and

26

financial. His/her financial management responsibilities include:

- o approving each project disbursement, ensuring appropriateness of cost and that expenses are within budget line items and in accordance with relevant AID provisions
- o monitoring the organization's system of internal controls to ensure that AID funds are properly safeguarded
- o interacting with the organization's accounting office to ensure that the project's recordkeeping system can produce the financial information required by AID
- o relaying to his/her ANE Bureau counterpart a strong confidence in the project's overall internal controls and systems and procedures.

AID's Office of Financial Management, Program and Accounting Division (FM/PAFD) maintains the official financial records of the Agency. PAFD is responsible for:

- o monitoring the status of project obligations
- o processing financial reports and vouchers submitted by the implementing organization
- o ensuring that proper ANE Bureau administrative approvals have been obtained
- o disbursing project funds.

The ANE Bureau's Project Officers are responsible for technical and financial management oversight. Critical control techniques to be used by ANE Project Officers include:

- o ensuring that all project requirements are formalized and complied with

- o the review and administrative approval of vouchers/reports
- o monitoring the need for audit
- o annual internal control assessment of regional projects.

Finding: not all project requirements are documented in the obligating document

We noted that in several instances, reporting and other requirements were not clearly defined in the obligating document but had been agreed to informally. We also noted non-compliance with provisions which were included in the obligating document.

Recommendation:

To strengthen the internal controls within the financial monitoring system of regional projects, we recommend that all understandings between AID and the implementing organization be formally documented. We also recommend that the ANE Project Officer ensure compliance with all obligating document provisions.

Finding: ANE Project Officer administrative approval of vouchers not present

In our review of the regional projects' voucher files at FM/PAFD, we noted several "pay" and "no pay" vouchers that did not have project officer administrative approval. The ANE Project Officer is in the best position to know or find out whether goods and services for which payment has been requested have been provided. The absence of such approval defeats the premise of prudent financial management and renders the internal controls over project disbursements inadequate.

For grants and cooperative agreements, the SF 269 report is forwarded to the ANE Project Officer by FM/PAFD for administrative approval after the report, which constitutes a "no pay" voucher, has been processed. However, this approval is still critical in the event that the ANE Project Officer determines that certain reported expenditures appear questionable. We noted seven vouchers (out of 23 reviewed) which did not have the ANE Project Officer's approval.

For contracts, PASAs, and RSSAs, administrative approval is required prior to processing the payment vouchers. We noted one instance (out of three) where approval was obtained after payment had been made.

In our review of those administrative approvals which had been submitted by the ANE Project Officers, we noted that several were submitted after the five day due date, ranging in untimeliness from 6 to 60 days. We also noted that several constituted second requests for approval from FM/PAFD.

Recommendation:

To strengthen internal controls over the disbursement of regional project funds, we recommend the following:

- o copies of all vouchers should be submitted by the implementing organization directly to the ANE Project Officer -- in this way, he/she will know to expect a copy requiring administrative approval from FM/PAFD
- o ANE Project Officers should return the administrative approval form by the required due date
- o the ANE Bureau should consider establishing a central point in the Bureau which would receive all of the vouchers requiring approval from FM/PAFD -- each voucher should be logged in and forwarded to the appropriate Project Officer or a previously designated

substitute in the event that the Project Officer is on travel.

Finding: project audits do not appear to be conducted on a regular basis

Handbook 13 indicates that preaward audits should be performed by the Inspector General's office, at the request of the regional bureau, when the agreement is greater than \$250,000 or if the recipient has not received U.S. government assistance funds in more that five years. Handbook 13 also indicates that IOs should conduct internal audits (fiscal and compliance) at least every two years. Our findings indicate that preaward audits or ongoing regional project audits do not appear to be conducted on a regular basis. We noted that only certain implementing organizations have taken the initiative to have their external auditors perform project fiscal and/or compliance audits.

Although a thorough review and analysis of financial reports by the ANE Project Officer serves to provide a reasonable level of control over project funds, compliance and fiscal audits are the ultimate tool for ensuring proper fiscal control of AID assistance funds.

Recommendation:

We recommend that the ANE Bureau establish a formal policy for audits of regional projects. An audit policy should include:

- o the frequency of audits
- o the scope
- o the source of funding.

Finding: the annual internal control assessment needs to be include more thorough testing

We reviewed the annual internal control assessment (ICA) for regional projects conducted last year and noted that it appears to have been completed as more of a questionnaire rather than conducted as an internal control review, with comprehensive testing. The ICA can serve as a valuable tool for monitoring the effectiveness of established control techniques with regard to regional projects if it is conducted properly.

Recommendation:

We recommend that the annual ICA be conducted as a formal internal control review with appropriate sampling and testing. The ANE Bureau should consider appointing a team composed of ANE Project Officers and finance staff from ANE/DP/F to perform the review. Alternatively, the ANE Bureau should consider contracting an accounting firm to complete the assessment.

3. Impact of Subagreements on AID Financial Monitoring

Finding: Inadequate AID guidelines on financial reporting requirements for subrecipients

As part of this study, we reviewed subcontracting procedures in place at each implementing organization to identify potential vulnerabilities which could have a negative impact on the control over project funds. We noted that some implementing organizations closely monitored their subrecipients (or subcontractors), making site visits and performing fiscal and compliance audits. Other implementing organizations relied

primarily on the financial reports and vouchers submitted by the subrecipient.

We also reviewed related AID guidelines with regard to subcontracting. We noted the following:

- o there do not appear to be any standard guidelines with regard to financial reporting requirements when subcontracting
- o regarding grants and cooperative agreements, AID Handbook 13 and OMB Circular A-110 guidelines indicated that the financial management system requirements for grantees hold true for subrecipients, and that it is the prime recipient's responsibility to ensure that these requirements are met
- o regarding participating agency agreements, AID relies on the procurement system in place at each agency to ensure effective control over subcontracting; subrecipients must be approved by AID in advance
- o the AID Contracting Officer for the ANE region indicated that the guidelines as described in Handbook 13 for subrecipients' financial management systems should also be applied to subrecipients under PASAs/RSSAs and direct contracts
- o if AID has confidence in the prime recipient's ability to monitor subcontractors, then limited AID involvement and oversight is needed
- o the principals of the Payment Verification Policy Statements Numbers 5 and 13 should apply to the subrecipients in the Regional Cooperation Projects.

Recommendation:

We believe that subcontracting issues can only be resolved on a case-by-case basis, depending on the level of confidence AID has in the prime's subcontract monitoring system. When subcontracting is considered, we recommend that the ANE Project Officer meet with the implementing organization to obtain an

overview of their subcontracting procedures. The ANE Project Officer should evaluate whether the prime can assume the responsibility of monitoring the subcontractors, similar to the Project Officer's role in monitoring the prime contractor. Emphasis should also be placed on financial reporting, including supporting documentation, requirements imposed upon the subcontractor by the prime.

In the event that AID has limited confidence in the prime's subcontracting system yet plans to allow subcontracting, the obligating document should specify billing and financial reporting requirements for the subcontractor.

For all types of contracting mechanisms, we recommend that the ANE Bureau be informed in writing of the organizations which are to be subcontracted by the prime. In the event that the Bureau would like to provide written approval of subagreements, this should be spelled out in the obligating document, as is currently done.

We recommend that the prime provide financial information on subcontractor disbursements in its billings and fiscal reports.

VII. COOPERATIVE MARINE TECHNOLOGY PHASE III

Implementing Organization: New Jersey Marine Sciences Consortium

Grant Number: NEB-0158-G-SS5192-00

ANE Project Officer: Charles Uphaus

NJMSC Project Director: Robert B. Abel

Project Duration: September 23, 1985 to September 30, 1988

Amount Obligated thru March 1987: \$ 3,203,206

Method of Payment: Letter of Credit

Persons Interviewed:

ANE: Charles Uphaus, Project Officer

NJMSC: Dr. Robert B. Abel, President
Mr. Robert N. Galloway, Chief Financial Officer
Ms. Celia von Oesen, Asst. Finance Officer

Report Format:

- A. Introduction
- B. Scope of Work
- C. Methodology
- D. Limitations
- E. Organization/Project Overview
- F. General Observations
- G. Findings and Recommendations

A. INTRODUCTION

Price Waterhouse was engaged by the Asia and Near East (ANE) Bureau of the U.S. Agency for International Development (AID) to assess the financial reporting system of several organizations/agencies implementing ANE Bureau regionally funded projects. One of the projects selected for review was the Cooperative Marine Technology Phase III, a discrete activity under the Regional Cooperation Project. This activity is implemented by the New Jersey Marine Sciences Consortium (NJMSC).

An integral part of our review included a visit to NJMSC's headquarters in Fort Hancock, New Jersey in July, 1988. We would like to thank the NJMSC project and administrative staff for their assistance and cooperation in conducting this review.

B. SCOPE AND OBJECTIVES

This review covers the financial information and reporting system of the ANE project with the objectives of ascertaining:

- a) compliance with grant provisions
- b) adequacy of information provided in terms of management oversight.

The review is also aimed at providing assurance to the ANE Project Officer as to the quality and timeliness of financial information reported as well as to the adequacy of NJMSC'S overall internal controls and systems and procedures in this regard. Based on our findings, we have developed recommendations to enhance the project's information and reporting system as well as to improve the ANE Bureau's monitoring system of regionally funded projects.

Our review does not constitute a financial or compliance audit of the project or NJMSC, and therefore, an opinion will not be rendered. In addition, this review does not constitute a technical evaluation of the project.

C. METHODOLOGY

In order for us to make a meaningful assessment of the financial reporting system of the project, consideration was given to areas directly and indirectly related to the generation of financial information. We followed a comprehensive program that included an appraisal of the organization's internal controls and systems and procedures in order to put our review of financial reporting into the proper framework.

We employed various methodologies for fact-finding. These included interviewing the ANE Project Officer to assess his reporting needs/concerns, and a site visit to NJMSC headquarters to interview project staff and personnel performing accounting, travel and administration functions. Selected testing was also performed at NJMSC's office to the extent we considered necessary in the given circumstances.

Upon completion of our field work, we met with the Chief Financial Officer and his assistant to review and validate our findings and present our recommendations for discussion. In addition, our draft report was submitted to the ANE Bureau for review. All comments have been incorporated in this final draft.

D. LIMITATIONS

As the Cooperative Marine Technology Project is implemented by subcontractors, the following limitations were encountered:

- o NJMSC does not require subcontractors to submit supporting documents to their summary financial reports, and therefore, we were not able to review disbursements made by the subcontractors nor assess the validity of reported expenditures
- o our scope of work does not include the review of the subcontractors' recordkeeping and accounting procedures.

Our observations and recommendations, therefore, concern the financial systems and procedures in place at NJMSC.

E. ORGANIZATION/PROJECT OVERVIEW

The New Jersey Marine Sciences Consortium (NJMSC) is a non-profit organization established in 1969. It is a consortium of twenty-eight members from the educational sector which includes universities in New Jersey, New York and other neighboring states. It is headed by a Board of Trustees, with the President providing overall active management of the affairs of NJMSC. Aside from AID as its major donor, it also receives funds from its member institutions, the Department of Higher Education, and other state and local agencies. In addition, NSMSC is implementing the Sea Grant project funded by the Department of Commerce and it earns minimal revenue from its feeder boat operations.

NJMSC has been the recipient of funds for support of its Middle East Program since 1980. At present, the Consortium is in Phase III of its project with ANE. The grant agreement with ANE aims to enhance regional cooperation between Egypt and Israel through collaboration among the region's marine scientists and through research in the various areas of marine sciences which will benefit both countries. ANE's support of Phase III of the Cooperative Marine Technology Program covers three sub-project activities:

- o lake management
- o seafood toxins
- o nonconventional fish programs.

The grant agreement specifies NJMSC as the overall coordinator and fiscal manager of the project. To implement the project, NJMSC has entered into subagreements with various institutions in Egypt, Israel and the U.S.

F. GENERAL OBSERVATIONS

In terms of its financial management of the project, NJMSC has generally been practicing proper controls over the receipt, custody and disbursement of funds. In addition, its accounting system appears capable of classifying, tracking and reporting ANE expenditures. Its procedures include:

- o separate bank account for each donor fund
- o detailed chart of accounts
- o detailed accounting records
- o detailed internal reports
- o periodic audits of subcontractors by the Chief Financial Officer
- o periodic reconciliations of accounts with subcontractors
- o adequate documentation of transfers of funds.

We noted, however, that the current financial reporting is not in compliance with certain grant provisions.

NJMSC's President appears concerned about proper financial management of the project and fully supports audits of subrecipients conducted by the Chief Financial Officer. We

understand that external audit recommendations and OMB Circulars A-110 and A-122 are being implemented and that the Chief Financial Officer has coordinated efforts with the organization's external auditors in this regard.

G. FINDINGS AND RECOMMENDATIONS

1. Financial Reporting

Finding: The SF 272 is not in compliance with AID requirements

The Federal Cash Transactions Reports (SF 272) submitted to AID's Office of Financial Management (PFM/FM) were reviewed to assess the timeliness of submissions and the information contained therein. We noted the following exceptions:

- o the report is not consistently prepared on a monthly basis as required of recipients receiving more than \$1 million per year
- o a breakdown of advances provided to subcontractors is not included as required
- o the estimated number of days in which the cash-on-hand will be expended is not indicated (item 12 on the SF 272)
- o cumulative net disbursements (column "d") and the footing of the supporting schedule, 272a, are completed incorrectly.

Recommendation:

We recommend that the grant agreement be modified to clarify the reporting requirements of AID and OMB Circular A-110. The amendment should contain the following provisions:

- o NJMSC should prepare the SF 272 on a monthly basis

VII-7

- o a detailed breakdown of advances to subcontractors should be included--an explanation should be provided if advances are for more than three days' cash needs for U.S. subcontractors, and if more than 30 days' cash needs for non-U.S. subcontractors
- o the number of days in which the cash-on-hand will be expended should be indicated in box 12--if more than three days cash requirements are on hand, an explanation should be provided in the "remarks" section
- o cumulative net disbursements should provide cumulative totals and should reconcile with the SF 269 report.

Finding: The SF 269 report is not in compliance with AID requirements

The Financial Status Reports (SF 269) submitted to AID were reviewed and the following exceptions were noted:

- o advances to subcontractors are not included in reported disbursements, per standard payment provisions; as a result, the report does not reconcile to the SF 272
- o disbursements are not presented by the project's financial plan--AID and OMB regulations require that the recipient provide financial data for each program, function and activity in the budget
- o the reports are submitted on an average of 20 to 30 days after the due date.

Recommendation:

We recommend that the grant be modified to clarify the reporting requirements with regard to the SF 269, in order to ensure prudent financial management of public funds.

Since the ANE Project Officer provides administrative approval of project disbursements through the SF 269 report, adequate information must be presented to justify this approval. Advances to subcontractors should be included in the current and cumulative disbursements reported, and these amounts should be

reconciled against the monthly SF 272a covering the same period. The vertical columns (a - f) should present information by project activity. Presenting information in this manner will depict for each activity:

- o prior period expenditures (line a)
- o current period expenditures (line b)
- o cumulative expenditures to date (line e)
- o accrued expenditures (line h)
- o cumulative accrued and actual expenditures (line k).

A supporting schedule depicting each activity's current period expenditures by cost element should also be included.

This information will enable the ANE Project Officer to:

- o assess the utility of funds for each cost element
- o evaluate trends in spending between periods
- o determine pipeline information (line m) and the need for additional funding.

Finding: Copies of the SF 269 and SF 272 reports are not submitted to the ANE Bureau

We noted that NJMSC does not submit copies of the SF 272 and SF 269 reports to the ANE Project Officer as required in the grant agreement.

Recommendation:

NJMSC should comply with this grant provision.

Finding: The semi-annual progress report does not include financial information

The grant agreement specifies that the semi-annual progress report should include comparative financial information, and in particular, variations in cost from budgeted amounts. Currently, no financial information is included in the progress report; moreover, the report is not consistently prepared on a semi-annual basis.

Recommendation:

The grant agreement should be modified to define specific financial reporting requirements in the semi-annual progress report. The inclusion of both financial and technical information will render the report more meaningful since accomplishments can be related to the cost of those accomplishments.

Financial information presented should include:

- o total budget approved by AID
- o current period expenditures
- o cumulative expenditures to-date
- o remaining balance.

Explanations to significant variances from budgeted to actual expenditures should be provided.

We recommend that the report be prepared and submitted to the ANE Bureau on a semi-annual basis as currently required in the grant agreement. As an internal control check, the amounts reported in the semi-annual report should be reconciled to the

information reported in the SF 269 reports covering the same reporting period.

Finding: The annual progress report does not include financial information

The grant agreement specifies that the annual progress report include a financial report and budget analysis covering:

- o professional effort
- o technical support
- o logistic expenditures
- o publication costs.

Financial information is not currently included in the annual report.

Recommendation:

The current reporting requirements as defined in the grant are difficult to meet since they do not correspond to the project's budget line items. Since the ANE Bureau requires information in the categories of professional effort, technical support, logistic expenditures and publication costs, we recommend it notify NJMSC how to allocate the project's current budget line items to fit these categories.

In addition, we suggest that the financial information recommended above for the semi-annual report be included in the annual report.

Finding: The accounting and reporting system for the AID project is distinct from the NJMSC central accounting system

In our review of the NJMSC accounting and reporting system, we noted that:

- o manual records are maintained for the ANE project from which billings/reports are generated
- o future plans include automation of the ANE project records while maintaining them separately from the organization's central accounting system, due to the limited capacity of the latter
- o as a result of two distinct systems, all transactions must be input twice (once in the central accounting system and once in the project accounting system) thereby making processing inefficient and increasing the potential for error; with approximately 200 transactions per month, in effect, 400 transactions are processed each month.

Recommendation:

We believe that NJMSC should implement one accounting system which can classify, track, and report all project expenditures, both AID and other donor funded. As the general ledger constitutes an organization's primary accounting record, billings and financial reporting should be generated from this source rather than from unrelated records. One system is far more efficient and greatly limits the potential for error.

One central accounting system would also facilitate the quarterly budgeting process for NJMSC. In addition, the organization's President and various Program Directors could be provided on-line access to subsidiary project reports, thereby enabling them to monitor each project, and activities within projects, on a regular basis.

2. Cash ManagementFinding: Certain advances to subcontractors are in excess of immediate disbursement needs

Our findings indicate that the NJMSC provides advances to subcontractors and replenishes them upon receipt of the subcontractors' liquidation report. The initial advances for a particular activity are generally larger as procurement is greater at the outset of an activity.

From our limited testing, we noted that for various project activities, the cash-on-hand maintained by the Egyptian National Institute for Oceanography and Fisheries, Academy of Scientific Research and Technology, tends to be significantly greater than immediate disbursement needs. This problem has been recognized by both NJMSC and their auditors. The Consortium corresponded with the Egyptian organization in March, 1988 to discuss the \$407,000 cash-on-hand balance and emphasized that no more advances could be provided until the existing cash balance had decreased. We understand that NJMSC's Chief Financial Officer has reviewed the Egyptian organization's books during the last audit to ensure that the advanced funds were not being used for purposes other than intended.

The justification provided by the Egyptian organization for their advance balance is that in order for them to encumber (obligate) the funds and begin work on a particular activity, standard Egyptian practice requires that all of the funds be provided up front. NJMSC has suggested several alternatives to advancing all of the funds, such as:

- o NJMSC certifying in writing that the funds have been obligated and that payment by wire will be made to the contractor upon Egyptian approval of the invoice

- o NJMSC establishing a commercial letter of credit which could only be drawn upon by NJMSC with Egyptian approval of a particular request for payment.

We also noted that certain advances made to the Texas A&M University appear to be in excess of immediate disbursement needs. For project activity #360, a \$40,000 advance was made on 9/30/86. As at 12/31/87, the University still had \$37,195 on hand.

Recommendation:

While we recognize that Egyptian procurement policies may require advance funding, we do not believe that advances in excess of immediate disbursement needs should be made. AID regulations clearly stipulate that advances (drawdowns) should be based on 3 days cash requirements for U.S. recipients and subrecipients, and 30 days cash requirements for non-U.S. recipients. The quarterly reports submitted by subcontractors should include projected cash flows per project activity for the upcoming quarter and should be the basis for requesting and justifying advances.

3. Subcontracting

The grant has authorized the subgrantees or subcontractors who will implement the regional project. As the principal party to the grant, NJMSC carries the ultimate responsibility over the proper technical and financial management of the subprojects implemented by subcontractors. A review of subcontracting transactions showed certain weaknesses which are indicated below.

Finding: Inadequacy of subcontractor agreements

A review of sample subcontractor agreements (Letter of Understanding) showed insufficient provisions on audit, recordkeeping, and reporting requirements. These exceptions are as follows:

- o The government of Egypt has its own regulation on recordkeeping, of which the subcontractor agreement did not make any mention or qualification. The Egyptian Presidential Decree No. 48, which sets forth the regulations for joint research projects contracted with foreign or international agencies, requires that upon termination of the project, the institution notify the Central Administration for Finance (COF) within two months and turn all documents and files to the COF. This decree should have been considered in the subcontractor agreement to allow the subcontractor and NJMSC the proper coordination with COF in conducting audits.
- o The provision to audit subgrantees' records within one year from project completion is not in compliance with the standard provision for non-profit organizations, which specifies that an audit may be conducted within three years from the completion of the project.
- o There is no provision on financial reporting requirements (i.e., form/contents, frequency, and due date).

Recommendation:

In order to improve financial control over sub-projects and provide the basis for imposing contractual obligations on parties to subagreements, subcontracts or memoranda of understanding should specifically provide the requirements for audit, recordkeeping and financial reporting.

Finding: Absence of supporting documents to subcontractors' reports

The subcontractors' financial reports show only a summary of expenditures incurred by line item and do not provide adequate detail to explain each expenditure. Some examples are:

- o For salaries paid to staff, there is no basis for NJMSC to determine validity of the expense, such as the personnel included in the payroll and their approved salary rates and net pay.
- o For non-expendable supplies and equipment, there is no schedule of new acquisitions to support the total expense reported.
- o For travel, there is no listing of personnel who travelled or destination.

Recommendation:

To provide the NJMSC with a sound basis for reviewing the validity of expenses incurred in the field, the following improvements should be considered:

- o a policy which states that a copy of "any single invoice which amounts to \$1,000 or more should be attached to the report" should be added to subcontractor agreements
- o in support of salaries and wages, a payroll summary should be attached to the report which shows the name and title of persons within the payroll, number of hours or days worked, total cost per person, salary adjustments and advances, if any, and net pay for the period
- o international travel should indicate names of people who travelled, date of travel, destination, transportation costs (including ground transportation), and per diem costs
- o non-expendable equipment purchased should be accompanied by a schedule showing each item of equipment, number of units, and cost.

Finding: Inadequate format of subcontractors' quarterly financial reports

The present format of quarterly financial reports used by subcontractors does not show the following relevant information:

- o a comparison of budgeted figures for each line item against actual current expenditures
- o status of funds remaining as of the end of the reporting period
- o estimates of cash requirements for the next period.

Recommendation:

To facilitate financial monitoring of sub-projects and control of funds, the format of the subcontractors' quarterly financial reports should be revised to show the above relevant information. In addition, adequate explanation should be supplied by subcontractors to any budget variation, extremely low or high ending cash balances, and justification for the next period's cash requirement when the amount shows an abnormal deviation from previous periods. This will facilitate compliance with AID regulations (per Handbook 13) which require grantees to report and explain cash advances to U.S. subrecipients which are in excess of 3 days cash requirements, and cash advances to non-U.S. subrecipients which represent more than 30 days cash requirements.

4. Property Management

Finding: Inadequate schedule of equipment

The present inventory list of equipment, which is currently used to monitor and control equipment and supplies purchases, shows the following information:

- o project name
- o date purchased
- o vendor name
- o check number
- o purchase order number
- o cost.

The schedule does not provide information on the type/description of equipment purchased, quantity purchased, location and present condition of each item. The schedule can not be used as an easy reference to check future purchase requests, nor does it really serve as an inventory of equipment and supplies.

Recommendation:

In order to properly monitor the acquisition of equipment and supplies, the present schedule should be revised as follows:

- o the format should include the following information:
 - description of equipment and serial number
 - quantity
 - location
 - condition
- o the schedule should group similar items together according to location or purpose.

5. Procurement

Finding: Non-competitive selection of suppliers

Procurement of equipment and supplies are made either by NJMSC or the subcontractors. The materials are highly technical and specialized so that no competitive selection of suppliers is undertaken. Although this is not in compliance with AID general procurement regulations, the DCAA found this procurement practice acceptable in light of the circumstances.

Recommendation:

As specified in the grant agreement, whenever possible, competitive selection of suppliers should be adopted as a procurement policy. Among the benefits that can be derived from this policy are:

- o the development of alternate sources of supply
- o the maintenance of a record of prevailing market prices.

6. Disbursements in Foreign Currency

Finding: Differences in cash reconciliation between NJMSC and subcontractors due to foreign exchange

Funds provided to subcontractors are converted into local currency and are recorded by the subcontractors at the exchange rate given by the bank. When the subcontractors prepare the financial report to NJMSC, the dollar figures are at prevailing exchange rates as at reporting dates (in the case of Egypt) or as at transaction dates (in the case of Israel). This results in differences in cash balances as reported by the subcontractor and as calculated by NJMSC. For example, a 1984 internal audit

report showed a difference in Egypt's cash account of \$10,226 due to foreign exchange fluctuations.

Recommendation:

We recommend that AID issue proper guidelines to grantees and subgrantees on which exchange rate to use when U.S. dollar funds are converted and spent in local currency.