

PN-ABW-894



**AGENCY FOR INTERNATIONAL DEVELOPMENT
ASIA AND NEAR EAST BUREAU**

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

**Patterns of Technology Exchange and
Cooperation in Agriculture**

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.

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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

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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
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- 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)

3. RECIPIENT ORGANIZATION (Name and complete address, including ZIP code)		4. EMPLOYER IDENTIFICATION NUMBER		5. RECEIPT ACCOUNT NUMBER OR IDENTIFYING NUMBER		6. FEDERAL 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) FROM (Month, day, year) TO (Month, day, year)				9. PERIOD COVERED BY THIS REPORT FROM (Month, day, year) TO (Month, day, year)				
10. STATUS OF FUNDS										
PROGRAMS/FUNCTIONS/ACTIVITIES ▶	(a) **	(b) **	(c) **	(d) **	(e) **	(f) **	TOTAL (g)			
a. Net outlays previously reported	\$	\$	\$	\$	\$	\$	\$			
b. Total outlays this report period										
c. Less: 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. Less: Non-Federal share of outlays										
g. Total Federal share of outlays (Line e minus line f)										
h. Total unliquidated obligations										
i. Less: 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. FUNDING 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	
							TYPED OR PRINTED NAME AND TITLE		TELEPHONE (Area code, number and extension)	
13. REMARKS: Attach any explanations deemed necessary or information required by Federal sponsoring agency to compliance with governing legislation.										

** By project input

STANDARD FORM 298 (7-74)
 Prescribed by Office of Management and Budget
 CIRCULAR NO. A-110

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 column (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 l.
		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. 80-RO182
 1. Federal sponsoring agency and organizational element to which this report is submitted

2. RECIPIENT ORGANIZATION

Name :

Number and Street :

City, State and ZIP Code :

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)

3. FEDERAL EMPLOYER IDENTIFICATION NO.

10. PERIOD COVERED BY THIS REPORT

FROM (month, day, year) TO (month, day, year)

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	SIGNATURE	DATE REPORT SUBMITTED
	CERTIFYING	TYPED OR PRINTED NAME AND TITLE	
	OFFICIAL	TELEPHONE (Area Code) (Number)	(Extension)

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.	11g	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		

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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

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

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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 than 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.

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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.

VIII. PATTERNS OF TECHNOLOGY EXCHANGE AND COOPERATION IN
AGRICULTURE (TATEC)

Implementing Organization: U.S. Department of Agriculture,
Office of International Cooperation
and Development (USDA/OICD)

PASA No.: BNE-0192-P-AG-4221-00

AID Project Officer: Charles Uphaus

OICD Project Manager: Mark Abbott

Project Duration: July 26, 1984 to March 31, 1989

Amount of Funding to-date: \$3,019,646

Method of Payment: Cost Reimbursement

Persons Interviewed:

AID: Charles Uphaus, Project Officer

OICD: Mark Abbott, Project Manager
Ruth Jespersen, Chief, Financial
Operations
Barbara Boyle, Finance
Jerry Walker, Chief, International
Research
John Miranda, Assistant Admini-
strator for Administration
Howard Albers, USDA/IG
Ron Cooke, USDA/IG

Report Format:

- A. Introduction
- B. Scope and Objectives
- C. Methodology
- D. Limitations
- E. Project/Organization 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 and agencies implementing ANE Bureau regionally funded projects. One of the projects selected for review was the Patterns of Technology Exchange and Cooperation in Agriculture (TATEC) project, a discrete activity under the Regional Cooperation Project. Through a Participating Agency Service Agreement (PASA), TATEC is managed by the Office of International Cooperation and Development (OICD) of the U.S. Department of Agriculture (USDA).

An integral part of our review included a visit to OICD offices in Washington, D.C. in July, 1988. We would like to thank the OICD 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 TATEC project with the objectives of ascertaining:

- a) compliance with PASA 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 OICD'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 OICD, 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 the OICD office to interview project staff and personnel performing accounting, reporting and administrative functions. Selected testing was also performed at the OICD office to the extent we considered necessary in the given circumstances.

Upon completion of our field work, we met with the ANE Project Officer, and OICD and USDA/IG staff 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 received have been incorporated in this final report.

D. LIMITATIONS

As TATEC is implemented by subgrantees in Egypt and Israel, the following limitations were encountered:

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

An additional limitation encountered was that we were unable to review the systems and procedures in place at USDA's National Finance Center (NFC) in New Orleans, which maintains USDA's official accounting records and processes all of USDA's requests for payment. Although we reviewed the supporting documentation to the billings to AID, we cannot comment on the adequacy of the systems and procedures used at NFC to generate the billings.

Our observations and recommendations, therefore, concern the accounting and reporting system in place at OICD.

E. ORGANIZATION/PROJECT OVERVIEW

OICD coordinates the Department of Agriculture's scientific endeavors with developed and developing countries. The principal areas targeted for bilateral cooperation include:

- o economic development
- o research
- o technical assistance
- o scientific exchange
- o training
- o trade and export promotion.

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The objectives of the TATEC project are to:

- o support the Middle East peace process by increasing contact and cooperation between Egyptian and Israeli agricultural scientists and by creating scientific and institutional linkages between the two countries
- o promote progress in the agriculture of the participating countries through development and exchange of innovative technologies suitable to the agro-socio-economic environment.

The project is administered by OICD, which in turn advances funds to the Egyptian Ministry of Agriculture and Hebrew University, the subgrantee recipients identified in the PASA. OICD's project management responsibilities include:

- o coordinating research efforts
- o ensuring that technical and cooperative project objectives are met
- o monitoring the grantees' technical and financial performance
- o preparing periodic fiscal and progress reports to AID.

The National Finance Center, which services all of USDA's offices, is responsible for the preparation and submission of the TATEC project billings.

F. GENERAL OBSERVATIONS

There appear to be good internal controls with respect to OICD disbursement procedures. The accounting system at OICD, which is used as the basis for the financial reporting to AID, employs a detailed chart of accounts and appears capable of classifying and tracking TATEC administrative expenditures incurred by OICD.

We noted that the subcontracts with Egypt and Israel are comprehensive and in compliance with AID regulations. In addition, extensive guidelines on accounting, reporting, procurement and other project related functions are included in a manual provided to the grantees. Reports submitted by the grantees are thorough and present the financial status of the project by each subactivity. We also noted that grantees frequently communicate with OICD to request authorization for movement of funds between subactivity budget line items.

The principal weaknesses noted in project management are as follows:

- o the accounting systems used to generate the billings and financial reporting to AID do not reconcile
- o financial reporting and billing to AID are delayed and incomplete
- o no periodic audits of grantees are performed.

We present our findings and recommendations below with regard to:

- o accounting, billing and financial reporting
- o monitoring of grantee performance
- o cash management
- o budgeting.

G. FINDINGS AND RECOMMENDATIONS

1. Accounting, Billing and Reporting System

Finding: The accounting systems used to generate the project's billing and financial reports are not compatible

The ANE Project Officer is informed of the financial status of the project from two sources: the billings, which he must administratively approve, and the fiscal reports. Our findings indicate that whereas the project's billing is prepared at USDA's National Finance Center (NFC) from its central accounting system, the fiscal reporting is prepared by the TATEC Project Manager based on the information tracked and reported by OICD's accounting system. It appears that the NFC and OICD systems do not currently reconcile. At OICD's request, the Inspector General's Office of USDA recently reviewed the two systems and developed recommendations for improvement.

Recommendation:

Since both OICD's and AID's official financial information for the TATEC project is maintained by each agency's central accounting office, USDA's National Finance Center and AID's Office of Financial Management (PFM/FM) respectively, the fiscal reports should reflect the same data that is tracked by NFC and processed by PFM/FM. We recommend that the OICD Project Manager prepare his fiscal reports to AID from NFC's ledgers until the OICD accounting system has been reconciled to the NFC system.

In our debriefing with OICD staff, they indicated that the OICD accounting system will no longer be used.

Finding: Two billings were submitted for the same period

We noted that two billings were submitted for the quarter ending March 31, 1988: the first in the amount of \$19,120 and the second in the amount of \$971,378. The following discrepancies were noted:

- o the second billing (\$971,378) appears to represent total project costs rather than current period costs

- o the amount of the first billing (\$19,120) does not appear to have been deducted from the second billing.

Recommendation:

We recommend that USDA review these two billings to ensure that the amounts claimed for reimbursement are correct.

Finding: The billings submitted to AID are not in compliance with standard PASA requirements

The current SF 1081 project billings to AID provide inadequate identification of the activity being billed. In particular, they do not include the following required information:

- o Participating Agency Service Agreement (PASA) Number
- o PASA Agreement Period
- o Project Name/Number
- o PIO/T Obligation Number
- o Appropriation Number
- o Allotment Number.

In addition, the billings do not indicate:

- o cumulative amount billed to-date
- o cumulative funds authorized to-date
- o identification of the most recent amendment.

We also noted that the billings have been untimely. PASA provisions indicate that billings should be submitted on a monthly or quarterly basis. The following exceptions were noted:

- o the October - December, 1987 billing was submitted on June 6, 1988

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- o an initial January - March, 1988 billing was submitted on June 6, 1988
- o a final January - March, 1988 billing was submitted on July 8, 1988--this was the latest billing submitted to-date.

We noted that neither the PASA provisions nor AID Handbook 12 indicate the number of days after the closing date within which the billing should be submitted.

Recommendation:

AID's payment provisions clearly indicate that disbursements will not be made without the required information included in the billings. We recommend that USDA's National Finance Center ensure that the billings comply with AID regulations and are submitted on a timely basis.

We also recommend that budgeted amounts and prior period expenditures per line item be included in the billing. This will facilitate voucher review by both the ANE Project Officer and AID's Office of Financial Management.

With regard to date of submission, we recommend that 30 to 45 days after the closing of the billing period be considered an acceptable time period. It is critical that OICD recognizes that delayed billings result in misstated pipelines and can seriously hamper requests for additional funding, which ultimately will effect the realization of program objectives.

OICD indicated that USDA has recognized that billings are untimely and is taking corrective measures.

Finding: The OICD Project Manager for TATEC does not review, approve or receive copies of the project billings

Our findings indicate that the OICD Project Manager is not involved in the billing process for the TATEC project.

Recommendation:

While we recognize that the National Finance Center is USDA's centralized accounting and billing office, and has designated personnel who review and approve the billings, it would behoove the Project Manager to receive copies for the following reasons:

- o these billings are based and supported by USDA's central accounting records, which indicate the official financial status of the project--these records and the billings should be reviewed by the OICD Project Manager to ensure that there are no major discrepancies
- o given the above mentioned problems with regard to proper billing procedures, the OICD Project Manager can serve as a check point for ensuring that billing is timely and in accordance with AID regulations.

As the responsibility for project administration ultimately rests with the OICD Project Manager, we believe he should ensure OICD compliance with PASA provisions and be informed of all financial management related issues.

OICD has agreed to provide copies of billings to the Project Manager.

Finding: AID Project Officer administrative approval for a payment request was submitted after payment was made

In our review of the TATEC project payment file at AID's Office of Financial Management (PFM/FM), we noted that payment to OICD in the amount of \$971,378 was made prior to receiving

administrative approval from the ANE Project Officer. The payment was processed on August 19, 1988 whereas Project Officer approval was obtained on September 13, 1988.

Recommendation:

The management control system of AID places project monitoring responsibility on Project Officers, thereby making them a critical element in AID's internal control system. The Project Officer is in the best position to review billings and determine whether project payments are justified in light of project progress. Processing payment without the Project Officer's approval defeats the premise of prudent financial management and renders the internal controls over disbursements inadequate.

We recommend that PFM/FM strictly enforce AID's regulations as defined in Handbook 12 and not process payments until receiving the signed administrative approval of the designated Project Officer.

Finding: Content of semi-annual financial report needs to be expanded to include projected expenditures

The semi-annual fiscal report prepared for ANE by OICD does not include information with regard to projected cash requirements for the upcoming reporting period. Such information is needed by ANE to determine whether future obligations are appropriate.

Recommendation:

The PASA should be modified to require that the semi-annual fiscal report show projected cash requirements for OICD administrative expenditures and Egyptian and Israeli program expenditures.

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Finding: Untimely submission of semi-annual fiscal reports

Our findings indicate that reporting to ANE has been untimely. A principal reason for this lag is the untimeliness of report submissions from Egypt and Israel.

Recommendation:

As the ANE Bureau's internal reporting system of regional projects is on a semi-annual basis, it is critical that participating agencies provide the ANE Project Officer with financial information on a timely basis, even if preliminary in nature. We recommend that OICD request the grantees in Egypt and Israel to submit by telefax or telex the following information:

- o total obligations to-date (e.g. approved budget)
- o current period expenditures
- o cumulative expenditures
- o remaining balance
- o projected cash needs for the upcoming six months.

This information can then be supplemented by the certified fiscal reports currently submitted by the grantees.

OICD has recognized the problem of delayed reporting and will continue to request subrecipients to improve their reporting.

Finding: Reporting provisions contained in the PASA are inadequate

Our review of the PASA indicates that the financial reporting provisions include inadequate guidelines on the level of detail required in the semi-annual fiscal report. However, we

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recognize that the OICD Project Manager has taken the initiative to submit sufficiently detailed fiscal reports.

Recommendation:

As the PASA serves as the contractual agreement between ANE and OICD, it should contain explicit guidelines with respect to financial reporting. This will both ensure that ANE's financial information requirements are met and will facilitate the transition should new project staff replace current staff at ANE or OICD. We, therefore, recommend including in the next amendment to the PASA specific reporting guidelines to correspond to current reporting practices.

2. Monitoring of Grantees

Finding: Internal records of advances and liquidations should be improved

We noted that the OICD Project Manager maintains an informal record to track total advances to grantees and their liquidation. This record does not provide separate totals of advances and liquidations by each grantee. In addition, only cumulative liquidations are shown.

Recommendation:

To make the record more useful, we recommend that separate columns be included for each grantee's advances and liquidations. In addition, liquidations should be tracked individually, rather than cumulative totals. This will enable the OICD Project Manager to assess trends in spending as well as outstanding cash-on-hand.

Finding: There are no periodic audits of grantees performed by OICD

We noted that whereas detailed guidelines have been provided to grantees regarding accounting, procurement and reporting functions, no compliance audits have been conducted to-date. In addition, no reviews have been performed to provide OICD with a level of assurance as to the adequacy of the grantees' internal controls and systems and procedures.

The ANE Bureau is dependent upon each prime contractor to monitor the activities of subrecipients. According to the Chief of Asia/Near East Contracting, this responsibility extends to participating agencies as well. Such monitoring includes project implementation from both a technical and a financial management perspective. The ANE Bureau expects OICD to have a reasonable level of assurance that both the accounting and control over AID funds are adequate.

Whereas we recognize that cuts in government spending generally affect project operating costs, AID guidelines require financial management audits to be conducted on at least a biannual basis. In addition, AID requires that the primary recipient of AID funding ensure that the same financial management standards required of prime contractors are applied to subrecipients, whether U.S. or foreign. According to the ANE Contracts Officer, each participating agency should have provisions which govern the use of non-U.S. grantees. These provisions should encompass the objectives of OMB A-110, adapting the provisions contained therein to address the realities of working with foreign institutions.

Recommendation:

We recommend that OICD establish a procedure similar to other participating agencies/implementing organizations to ensure that adequate review of grantees' internal controls and systems and procedures is performed on a regular basis. Such a review should be considered when preparing the project's budget.

Given that the Regional Cooperation Project includes a number of discrete projects using several of the same subcontractors, we recommend that the ANE Project Officers of the various Regional Cooperative activities coordinate with the implementing organizations/participating agencies to:

- o create a consolidated list of all subrecipients
- o develop a schedule for financial management reviews of each subrecipient
- o determine which implementing organization/participating agency will perform each review
- o ensure that adequate project funding is budgeted for such reviews in the case where these reviews are not included in the organization/agency overhead calculation.

Such coordination will serve to combine project resources, thereby getting maximum utilization of AID funds.

Finding: Inadequate supporting documents accompany grantees' fiscal reports

We reviewed the semi-annual fiscal reports submitted by the Egyptian and Israeli grantees for the period ending March 31, 1988 and noted the following:

- o the Egyptian grantee did not provide details of expenditures with regard to salaries, capital assets and equipment, and other costs as required
- o the grantees did not provide details with regard to travel.

Recommendation:

We recommend that the OICD Project Manager ensure that the Egyptian grantee comply with reporting provisions. In addition, both grantees should be requested to provide a breakdown of international travel to include:

- o names of persons travelling
- o dates of travel
- o destination
- o transportation and per diem costs.

The above information will provide the OICD Project Manager with an adequate basis for reviewing the validity of grantee expenditures, particularly in light of infrequent audits. It will also serve as the basis for developing the preliminary information needed to prepare for an internal audit of the project.

OICD indicated that they will continue to request additional information, particularly from Egypt.

Finding: The guidelines provided to grantees should be expanded

We reviewed the guidelines provided by OICD to the grantees and noted that although comprehensive, they need to be expanded in the areas of accrual reporting and audit. Currently, the reporting guidelines do not require reporting of accrual information, which is essential for accurately determining

pipeline figures. In addition, the guidelines do not contain a provision for audit by OICD or its designated appointees. We did note that the subagreements contained a provision for audit, although the provision specified that records had to be maintained for two years only.

Recommendation:

We recommend that the guidelines be modified to require the reporting of accrual figures. In addition, a provision for audit should be included. The provision should indicate that records and related documents be maintained for three years following the end of the project, per standard U.S. government policy. The subagreements should also be modified to indicate three years record detention period after project completion.

3. Cash Management

Finding: The Egyptian subcontractor is providing insufficient information to evaluate its cash-on-hand

We reviewed the semi-annual fiscal report submitted by the Egyptian Ministry of Agriculture (MOA) for the period ending March 1988 and noted that the MOA does not indicate projected cash flow requirements for the next period. As a result, it is impossible to evaluate the remaining cash-on-hand as excessive or inadequate. We noted that as at March 1988, MOA had disbursed 59% of advances received, with an ending cash balance of \$377,257.

Recommendation:

The OICD Project Manager should ensure that MOA's reporting includes projected cash flow requirements for each activity. This will enable him to effectively monitor MOA's cash management.

4. Budgeting

Finding: The budget included in the PASA does not provide a sufficient breakdown of budget line items

We reviewed the budget included in Amendment 3 to the PASA and noted that insufficient information was provided with respect to the grantees' budgets. Whereas the total amount earmarked for each grantee was indicated, the budgets to support these amounts were not provided. In addition, a decrease in the amount of \$763,882 was included in the overall budget to arrive at the amendment's total obligation needs; however, the effect of this decrease on the grantee obligations was not indicated.

The OICD Project Manager indicated that the PASA budget was an inadequate management tool and that the work plan budget submitted with the request for additional funding was used to monitor the project.

Recommendation:

As the budget in an obligating document, in this case the PASA, serves as the final expression of the program as approved by AID, it should reflect the detail required to monitor the implementation of the program. We recommend that the budget in the next PASA amendment reflect that of the work plan, and that it be used to track and report AID expenditures. This will enable the ANE Project Officer to exercise prudent financial management by comparing costs incurred with those originally budgeted and approved.