UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

DRAFT REPORT ON FINANCIAL REVIEW OF GRANT/ COOPERATIVE AGREEMENTS WITH INTRAH, PATH AND POULATION COUNCIL

(Indefinite Quantity Contract (IQC) No. 386-I-03-98-00235-00, Task Order No. 03

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United States Agency for International Development

Draft report on financial review of Grant/ Cooperative agreements with INTRAH, PATH and Population Council

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List of appendices attached to this report

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1.00 INTRODUCTION

1.01 A.F.Ferguson & Co. (AFF) were retained by United States Agency for International Development (USAID-India), New Delhi under the Indefinite Quantity Contract No. 386-I-03-98-00235-00, Task Order No. 03 to carry out a financial review of the USAID's cooperative agreements with the following three organisations for India operations:

(1) INTRAH - Program for International Training and Health
(2) PATH - Program for Appropriate Technology in Health
(3) Population council.

1.02 AFF has completed the assignment as per the scope of work stated in the "Statement of Work" provided by USAID-India and is submitting the draft report on the above assignment.

1.03 As per the requirements of USAID-India, this report is organised as follows in the subsequent sections:

(1) Executive summary
(2) Background and scope of work
(3) Review methodology and work done
(4) Details of AFF's findings.

2.00 EXECUTIVE SUMMARY

2.01 This chapter provides the executive summary of AFF's report in respect of the study on the financial review of the USAID's cooperative agreements with the following three organisations for India operations:

(1) INTRAH
(2) PATH
(3) Population Council.

Study focus

2.02 All the above organisations have their head offices in USA, which have entered into co-operative agreements with USAID (Washington D.C.) to fund certain projects. In line with these agreements their additional/ regional offices in India provide technical assistance to the projects funded by USAID.

2.03 In the above context, AFF were retained to review the systems and accounting records of the three organisations in respect of the India operations for the period from January, 2000 to June, 2000 with a view to ensure that:

(1) Costs incurred under the contract are allowable

(2) Adequate internal controls exist

(3) Terms and conditions as laid down in the contract with USAID are complied with.

Scope of work

2.04 The relevant extract from the "Statement of Work" provided by USAID-India outlining the scope for the assignment is provided hereunder:

(1) Determine that costs incurred are allowable, allocable and reasonable under the agreement terms and to identify the exceptions that have occurred or are likely to occur as a result of inadequate controls

(2) Evaluate the internal control structure, assess control risks and to identify exceptions, including material internal control structure weaknesses

(3) Determine whether the organisations complied with the agreement terms and the applicable laws and regulations.

2.05 The detailed scope of work for the assignment is provided in chapter 3 of this report.

AFF's review - Sample

2.06 AFF reviewed the relevant internal control structure/ policies and procedures and the terms and conditions of the applicable laws and regulations in respect of the main areas of financial operations covered as a part of this study. For the purpose of compliance testing/ transaction audit, the samples of transactions were selected as follows:

(1) The expenses for the month of January 2000 and May 2000 (June 2000 in case of Population Council) were checked in detail (100% checking was done for these two months). The checking covered the following:

(a) cash and bank vouchers and related records
(b) bank reconciliation statements
(c) expense reports

(2) A review was carried out for the remaining period. The review involved general scrutiny of expenses and expense reports.

Overall conclusion

2.07 Overall, the internal control structure and the accounting system and records are adequate in respect of the project activities carried out in all the three organisations.

2.08 In essence, the significant terms and conditions as provided in the co-operative agreements and other applicable guidelines are being followed with adequate controls and checks.

AFF's findings

2.09 AFF's findings and the concerned organisation's comments are provided in Chapter 5 of this report.

3.00 BACKGROUND AND SCOPE OF WORK

3.01 This chapter contains the following:

(1) Objectives of the assignment
(2) Background of the assignment
(3) Scope of work.

Objectives of the assignment

3.02 The main objectives of the assignment are to determine the following with respect to the Indian operations of the three organisations.

(1) That the costs incurred under the agreements are allowable
(2) That an adequate system of internal controls is maintained
(3) That the organisations complied with contract terms.

BACKGROUND OF THE ASSIGNMENT

3.03 USAID, Washington has entered into cooperative agreements with the three organisations viz. INTRAH, PATH and Population Council for provision of technical assistance for the following projects:

(1) Innovations in Family Planning Services (IFPS)
(2) Program for Advancement of Commercial Technology- Child and Reproductive Health Program (PACT-CRH).
(3) Horizons
(4) Frontiers.

3.04 The funds are released by USAID Washington office to the organisation's Head Office. The India office of the organisations receive funds from their HO. Depending upon the type of office of the respective organisation i.e. RO/ Field office the disbursements are made by the India offices for the activities carried out in the region/ FO.

3.05 The assignment requires the financial review of the USAID funded activities in India of the three organisations with a view to meet the objectives laid down in para 3.02 above.

3.06 The financial review was to be carried out for the period January' 2000 to June' 2000.

Scope of work

3.07 The relevant extracts of the scope of work for the assignment as per the Statement of Work provided by USAID/India are given below :

(1) Determine that costs incurred are allowable, allocable and reasonable under the agreement terms and to identify the exceptions that have occurred or are likely to occur as a result of inadequate controls

(2) Evaluate the internal control structure, assess control risks and identify exceptions, including material internal control structure weaknesses

(3) Determine whether the organisations complied with the agreement terms and the applicable laws and regulations.

3.08 The scope of work included the following steps in respect of the different study areas.

Eligibility of costs

(1) Review costs billed as well as costs incurred, identifying and quantifying questionable costs.

(2) Review the foreign exchange rates at which disbursements have been recorded and claimed. Verify that reimbursement claims were prepared at these exchange rates. Note exceptions and if these resulted in any excess billings to USAID

(3) Review accounting records maintained by the respective offices to determine whether costs incurred were properly booked

(4) Review the procedures used to control the funds, including bank reconciliation

(5) Review procurement procedure for determining that sound commercial practices including competition were used, reasonable prices were obtained and there were adequate controls over the quality and quantity received

(6) Review commodities to determine whether:

(a) they are accounted for

(b) control procedures exist and have been placed in operation to adequately safeguard them, and

(c) whether the commodities have been used for their intended purposes in accordance with the agreements

(7) Review if any advances have been claimed as expenditures

(8) Review if a system is in place to recover/ return to USAID at the end of the project, initial deposits made for procuring office/ residential space, STD/ ISD/ facilities on mobile phones etc.

Internal Control Structure

(1) Evaluate and document the organisations internal control structure to obtain a sufficient understanding of the design of relevant control policies and procedures. Major internal controls to be evaluated include systems for :

(a) ensuring that charges in respect of the project are proper and supported

(b) management of cash on hand and in bank accounts

(c) procurement procedures and practices

(d) receiving and inventory functions

(e) management of personnel functions such as time keeping, salaries and benefits

(f) management and disposition of commodities

(g) ensuring compliance with agreement terms and applicable laws and regulations

(2) Test check and comment on the adequacy of the functioning of the internal controls using the information gathered in (1) above and to test check results to determine the nature, timing and the extent of tests to be performed

Compliance with agreement terms

(1) If payments have been made in accordance with agreement terms;

(2) If funds have been expended for any unauthorised purposes;

(3) If there are questionable costs and why these are not considered appropriate;

(4) Whether any commodities are unaccounted for or not used for intended purposes;

(5) If financial reports and reimbursement claims are supported by books and records.

(6) If pertinent agreement terms, laws and regulations are complied with.

4.00 REVIEW METHODOLOGY AND WORK DONE

4.01 The review methodology adopted to carry out the assignment and the work done are provided in the subsequent paragraphs.

4.02 The work on the assignment was broadly divided into two stages as follows :

First stage

(1) Initial meeting with the concerned officials and staff of the Controller's office/ Regional Contracting Office (RCO), USAID, India

(2) Preliminary meeting and discussions with the concerned officials of the three organisations with a view to obtain an overview of the systems and procedures followed for accounting of expenditure incurred under the agreements

(3) Based on the above discussions, AFF developed a work plan detailing the following :

(i) AFF's understanding of the task
(ii) The broad activities we propose to carry out to address the task objectives
(iii) Basis of sample selection for the financial review
(iv) Time schedule for financial` review activities.

(4) Discussion and finalisation of the work plan with the concerned officials of the Controller's office/ Regional Contracting Office (RCO). (A copy of the work plan is enclosed as Appendix I.

Second Stage

(1) Actual review and verification work at the offices of the three organisations in accordance with the work plan

(2) Discussion of the findings as they are developed with the officials of the respective organisations

(3) Preparation and submission of the draft and final reports on the financial review carried out, incorporating the required details.

4.03 This is the draft report containing AFF's findings and recommendations on the financial review.

4.04 The final report shall be submitted after obtaining comments of the USAID, India on the draft report and discussion of the same with USAID and respective organisations. Necessary changes shall be incorporated in the draft report based on the discussions.

5.00 AFF's FINDINGS

5.01 This chapter contains the following in respect of the financial review carried out for each of the three organisations.

(1) Brief background of the organisations
(2) Overview of existing systems and related internal controls
(3) AFF's findings and organisation's response

5.02 The existing systems and procedures and the internal controls are discussed in respect of the following main areas:

(1) Receipt of funds and fund management
(2) Cash transactions
(3) Bank transactions
(4) Accounting for expenses

  (i) Salaries and benefits
  (ii) Travel expenses
  (iii) Procurement of fixed assets and miscellaneous items
  (iv) Consultants payments

(5) Preparation and submission of expense report

5.03 AFF's findings are presented under the following main heads:

(a) Internal control
(b) Eligibility of costs
(c) Compliance with agreement terms and conditions

(the response of the organisation in respect of AFF's findings are provided against each finding)

INTRAH

BRIEF BACKGROUND OF INTRAH

5.04 The USAID's funds for providing technical assistance and training for the Innovations in Family Planning Services (IFPS) project, are channeled through several cooperating agencies. One of the cooperating agency is the University of North Carolina (UNC) at Chapel Hills (CH), USA.

5.05 The UNC has entered into a global cooperative agreement (PRIME II) with USAID (Washington) to provide technical assistance to IFPS. PRIME II focuses on the improvement of performance of service providers in reproductive health.

5.06 In India, the project is implemented through Programme for International Training and Health (INTRAH) in collaboration with SIFPSA.

5.07 INTRAH provides technical assistance to strengthen institutions and organisations involved in training the front line and primary health workers in the area of reproductive health. It has developed three major interventions to increase capacity and capability of the service providers which are as follows:

(1) Auxiliary Nurse Midwives (ANM's)
(2) Traditional Birth Attendants (TBA's)
(3) Private Practitioners of Indigenous System of Medicines (ISM)

5.08 Besides the above it also provides technical assistance to the CPSM (Community Partnership & Safe Motherhood) project.

Organisation structure

5.09 INTRAH's office in India is the Asia/ Near East Regional Head office with country offices in Bangladesh and Yemen. It is headed by a Regional Director and supported by Regional Managers who specialise in different areas. The organisation structure of INTRAH's India office and the geographical spread of the organisation as a whole is provided in Exhibit I.

OVERVIEW OF EXISTING SYSTEMS AND RELATED INTERNAL CONTROLS

5.10 An overview of the existing systems and related internal controls is given in Appendix II.

AFF'S FINDINGS AND ORGANISATION'S RESPONSE

Internal controls

Funds reconciliation

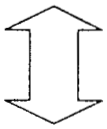
- The project office (Intrah office in India) receives funds in USD from its Head Office. The funds are received in the dollar bank account and based on the requirement, funds are transferred periodically to the Rupee bank account for meeting India office expenses. As a part of the financial review a reconciliation of funds for the rupee account was carried out for the period of review (January' 2000 to June' 2000). The reconciliation showed a difference of Rs. 251. (The fund reconciliation statement is provided in Exhibit II).

  The project authorities carried out a detailed checking of all the transactions for the period but could not provide any explanations for the difference.

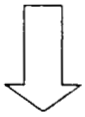
EXHIBIT I

GLOBAL PLACEMENT OF INTRAH

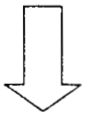
USAID (Washington)



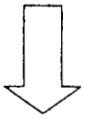
UNIVERSITY OF NORTH CAROLINA (UNC) at Chapel Hills



School of Medicine



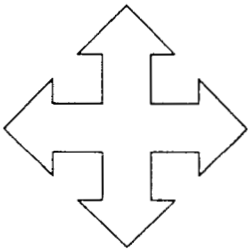
Programme for International Training in Health (INTRAH), Headquarters located at Chapel Hills in USA.



Regional Offices

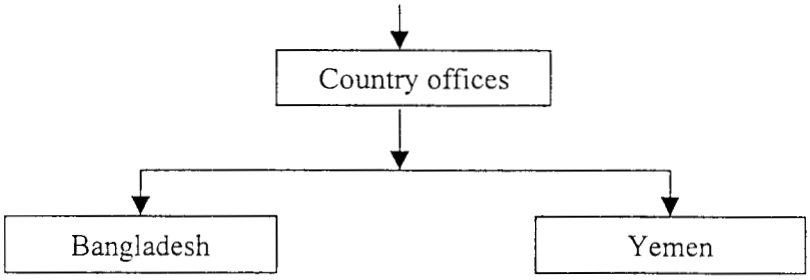
West/ North Africa

Southern/ East Africa



Latin America

India HO located in New Delhi



INTRAH

ORGANISATION STRUCTURE

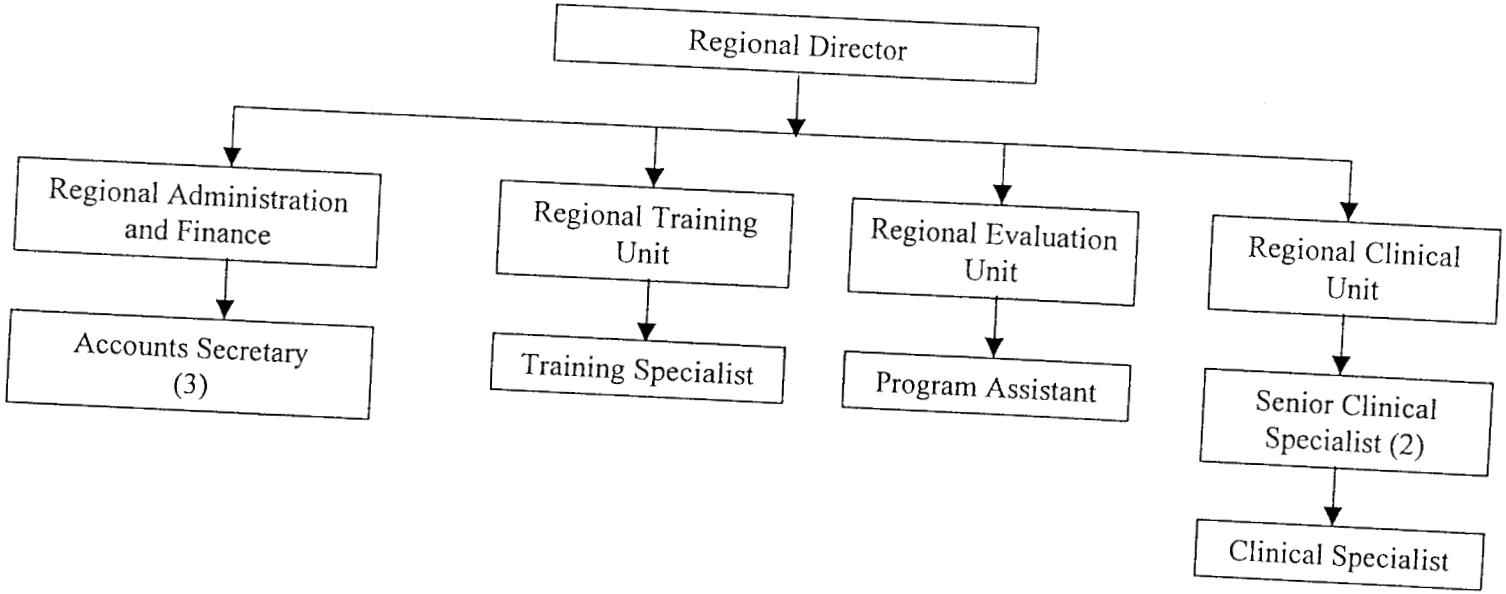


EXHIBIT II Funds reconciliation for INTRAH for the six months under review	(Amt. In Rs.)
Opening balance as on 1.1.2000	
Cash in hand	36455
Add: transfers to rupee account from dollar account during the six months	11070726
Total Funds	**11107181**
Less: expenses for the period as per the expense reports	9971269
Less : expenses paid but not reported	777423
Less: Amounts to be receved from other offices in the premises as their share of common expenses	12226
Closing funds	**346263**
Closing balance as on 30/06/2000 as per the bank book	**329422**
Closing balance of cash	16590
Total closing funds	**346012**
Difference unreconciled	251

Since the amount of difference is not significant and keeping in view the systems and procedures followed by the project authorities we feel that there may not be a significant impact of the unreconciled amount on the reporting by the project office. However, the project authorities should carry out further detail checking and analyse the reasons for the difference.

Voucher preparation

- The project prepares bank payment voucher and cash payment voucher (for cash payments of non-routine nature). In case of cash payments of routine nature the supportings are treated as vouchers and no separate voucher is prepared for the same. These are kept in a folder.

  The above vouchers/ supportings are not serially numbered at the time of accounting of payment transaction. These are numbered only at the month end at the time of preparation and submission of expense report to the HO. In addition, no reference is given in the cash/ bank book of the voucher number. The trail of the vouchers for transactions appearing in the cash/ bank book cannot be maintained.

  According to the project authorities the current system is followed keeping in view the volume of the transactions (approximately 30 in a month)

Cash payments

- Cash payments are made for expenses both of routine and non-routine nature. In the case of payment for non-routine expenses prior approval is required from the Regional Manager. However the expenses to be classified as non-routine expenses are not laid down clearly.

  AFF was informed that the routine expenses are generally in the nature of office supplies, local conveyance, courier charges, small repairs and maintenance, etc. All other cash payments, which do not fall under the above category, are non-routine in nature.

  However during the course of our checking on test check basis no case was observed where the non-routine expenses was not approved by the RM.

- The monetary limits of cash payments have not been laid down. The expenses are made in cash based on the nature of expenses.

  According to the project authorities the cash payments are made for small expenses of routine nature. For any non- routine nature payment through cash, prior approval is taken.

  During the course of our checking carried out on sample basis, the maximum amount of cash payment was found to be of Rs. 4231.

It is recommended that along with the classification of cash payments in routine and non-routine expenses the monetary limit shall also be laid down.

Expense reporting

- The expenses incurred in India are paid in rupees. At the month end all the expenses for the month are reported in the Expense Report in rupee and USD equivalent. The rupee expenditure is converted in USD equivalent following monthly weighted average exchange rate. This method of computing the exchange rate does not ensure that the expenditure is reported at the rate at which the funds were transferred from the dollar account to the rupee account. Though the variations observed were not very significant, in case of major fluctuation in foreign exchange rate, in future the variations may become significant.

  The project authorities agreed with the above observation and mentioned that since the fluctuations were not significant over the period of review (January' 2000 to June' 2000) the reporting may not have effected.

Compliance with the agreements

INTRAH's global co-operative agreement with USAID (Washington) does not specify any specific clause/ provision for India operations. The agreement was applicable to the extent of travel and procurement guidelines. Other clauses in the agreement i.e. budget, reporting and evaluation, key personnel, indirect cost, etc. are applicable for the organisation as a whole and therefore complied with by the HO..

The project office has generally complied with the agreement terms to the extent applicable.

- The project authorities follow their own standard operating procedures which inter alia lays down the per diem rates for travel. It was observed that the per diem rates laid down in the standard operating procedures are lower then the rates prescribed in the AID guidelines. (e.g. for travel to USA the per diem rate for travel to University of North Carolina (UNC) specified by the AID guidelines is 38 USD, against which the procedures provide for a per diem rate of 28 USD. Similarly for domestic travel the AID guidelines provide for 36 USD for travel to other cities (other than five specified cities) whereas the procedures provide for maximum of 1500/day (approx. 35 USD)).

PATH

BRIEF BACKGROUND OF PATH

5.11 PATH is an international, non-profit, non-governmental organisation dedicated to improving health, especially the health of women and children. PATH identifies,

develops and applies appropriate and innovative solutions to public health problems, particularly in low resource settings.

5.12 The HO of PATH located in USA has entered into a co-operative agreement with USAID (W) for funding the Program for the Advancement of Commercial Technology-Child and Reproductive Health Program (PACT-CRH). In India, PATH provides technical assistance to the above project, which is implemented in collaboration with ICICI.

5.13 The PACT-CRH Project is targeted towards the growing demand and opportunities for private sector involvement in child and reproductive health and AIDS prevention products and services.

Organisation structure

5.14 PATH's Headquarters and a program office are located in Seattle, Washington. Additional offices are located in a number of places all over the world including India. The office in India is located in New Delhi and is headed by a Resident Advisor (R.A). The organisation structure of the India office (where the review was carried out) is provided in Exhibit III.

OVERVIEW OF EXISTING SYSTEMS AND RELATED INTERNAL CONTROLS

5.15 An overview of the existing systems and related internal controls are given in Appendix III

AFF'S FINDINGS AND ORGANISATION'S RESPONSE

Internal controls

Receipt of funds and fund management

- The PATH office in India (the Project Office) receives funds from its HO and incurs expenditure for India operations for which it maintains a Rupee Bank Account. As a part of the financial review a reconciliation of funds was carried out for the period of review (January 2000 to June 2000). The reconciliation showed a difference of Rs. 335.00. (The fund reconciliation statement is provided in Exhibit IV).

  The project authorities could not provide any explanations for the difference.

  Since the amount of difference is not significant and keeping in view the systems and procedures followed by the project authorities we feel that there may not be a significant impact of the unreconciled amount on the reporting by the project office. However, the project authorities should carry out a detail checking and analyse the reasons for the difference.

EXHIBIT - III

PATH

ORGANISATION STRUCTURE

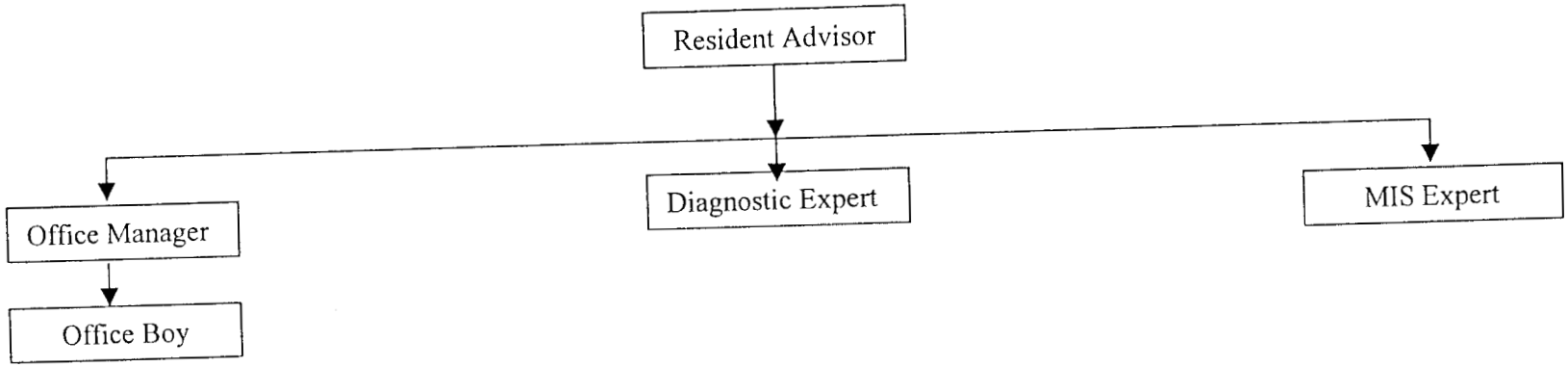


EXHIBIT IV	
Funds reconciliation for PATH for the six months under review	
	(Amt. In Rs.)
Opening balance as on 01/01/2000 as per the bank statement	2265494
Add: Funds received during the six months period from the Head office	9267860
Total Funds	**11533354**
Less : December '99 cheques outstanding cleared subsequently	387251
Less : Expenses reported during the six months as per the Expense Report	6887740
Add : Outstanding cheques of May '00 & June '00	372005
Closing funds	**4630368**
Closing balance as on 30/06/2000 as per the bank statement	**4630033**
Balance unreconciled	**335**

- The project authorities do not maintain a cash and bank book. Therefore receipt and the payment transactions remain unaccounted on a daily basis. At the end of each day, the cash is tallied on a rough sheet of paper and the same is not kept as a record. At any particular point of time the cash and bank balance cannot be known. Further on loss of any voucher the expense may remain unaccounted.

  In the absence of the bank book, the project authorities prepare bank reconciliation statement at the end of the month after preparing the expense report for the month and comparing the expense report with the bank statement for payments made by cheque.

  The project authorities informed that since the number of transactions are not high, maintaining a cash and bank book was not felt necessary.

Cash payments

- The cash payments are made by each of the project offices out of the advance released to them. The payments are generally in the nature of office supplies, local conveyance, office boy's salary etc. No written prior approval from the Program Officer is taken prior to the incurrence of cash expenses. Further, no monetary limit for cash payment is specified by the project authorities.

Exchange rate for preparation of monthly expense report

- The conversion of rupee expenses in USD equivalent in the monthly expense report is done at the exchange rate at which the funds were received in the month of reporting irrespective of the amount of funds received and expense reported. In case the funds are not received in a particular month then the rate at which the funds were last received is taken as the exchange rate.

  As per the project officials the system followed is as per the instructions from their Head Office.

Expenses for other projects

- The project office in India also incurs expenditure for projects other then the PACT-CRH project. These expenses are recorded under the respective project codes and reported separately in the Expense report prepared and submitted to their HO. Details of the expenses incurred for other projects is provided in Exhibit V

  However, AFF was informed that these expenses were incurred at instance of the HO.

Exhibit V

Details of the expenses incurred for other projects

MONTH	PROJECT CODE	AMOUNT (Rs)
January 2000	1234-0240-00	6670.00
Feb 2000	1235-0505-00	62539.00
March 2000	9910-0061-00	110220.00
	0777-0001-01	51229.00
April 2000	0777-0001-01	115243.00
	1234-0240-00	13840.75
May 2000	9910-0061-00	12140.00
	1234-0240-00	10106.00
	0777-0001-01	23909.00
June 2000	0777-0001-01	4545.00
	0667-0001-00	4489.75

Compliance with the agreements

PATH's global co-operative agreement with USAID (W) does not specify the specific clauses/ provisions for the India operations. The agreement was applicable to the extent of travel and procurement guidelines. Other clauses in the agreement i.e. budget, reporting and evaluation, key personnel, indirect cost, etc. are applicable for the organisation as a whole and therefore complied with by the HO.

In addition, the project office has its own internal guidelines which are generally been followed.

Travel guidelines

- The project office follows the internal guidelines in respect of per diem rates for reimbursing the meals and incidental expenses of the traveller. It was observed that these rates were more than the rates prescribed by USAID. For e.g. in country travel to certain places (other than metro cities and Bangalore) the Per diem rates as per USAID is 36 USD and 53 USD (if the invoices for the expenses are produced). As against this the project authorities pay 53 USD without any supporting invoices.

  The project authorities clarified that as per para 3.9 (f) of the co-operative agreement, the USAID guidelines for travel are applicable only if the recipient does not have written established policies regarding travel costs. Since PATH has written guidelines for travel, therefore USAID guidelines are not followed.

POPULATION COUNCIL

BRIEF BACKGROUND OF POPULATION COUNCIL

5.16 Population Council, a non-profit, non-governmental research organisation established in 1952, seeks to improve the well being and reproductive health of current and future generations around the world and to help achieve a humane, equitable and sustainable balance between people and resources.

5.17 The Head office of Population Council located in USA has entered into co-operative agreements with USAID (W) for funding of the following two projects:

(1) Horizons
(2) Frontiers

5.18 In India, Population Council provides technical assistance to the above projects which are implemented through sub-contractors

5.19 The Horizons Project aims at refining the response to HIV/AIDS through global operations research. Frontiers aims at improving reproductive health.

Organisation structure

5.20 Population Council's Head office is located in New York, USA. It maintains an International presence through its five regional offices and 15 country offices. The Regional Head office for South and East Asia is located in India There are 5 country offices in the region. The office in India is located in New Delhi and is headed by a Regional Advisor (RA). The organisation structure of the India office (where the review was carried out) is provided in Exhibit VI.

OVERVIEW OF EXISTING SYSTEMS AND RELATED INTERNAL CONTROLS

5.21 An overview of the existing systems and related internal controls are given in Appendix IV.

AFF'S FINDINGS AND ORGANISATION'S RESPONSE

Internal controls

Exchange rate

- The rupee expenditure is converted in USD equivalent following monthly weighted average exchange rate for reporting in monthly expense report. This method of computing the exchange rate does not ensure that the expenditure is reported at the rate at which the funds were transferred from the dollar account to the rupee account. Though the variations observed were not very significant, in case of major fluctuation in foreign exchange rate, in future the variations may become significant.

  The project authorities agreed with the above observation and mentioned that since the fluctuations were not significant over the period of review (January' 2000 to June' 2000) the reporting may not have effected.

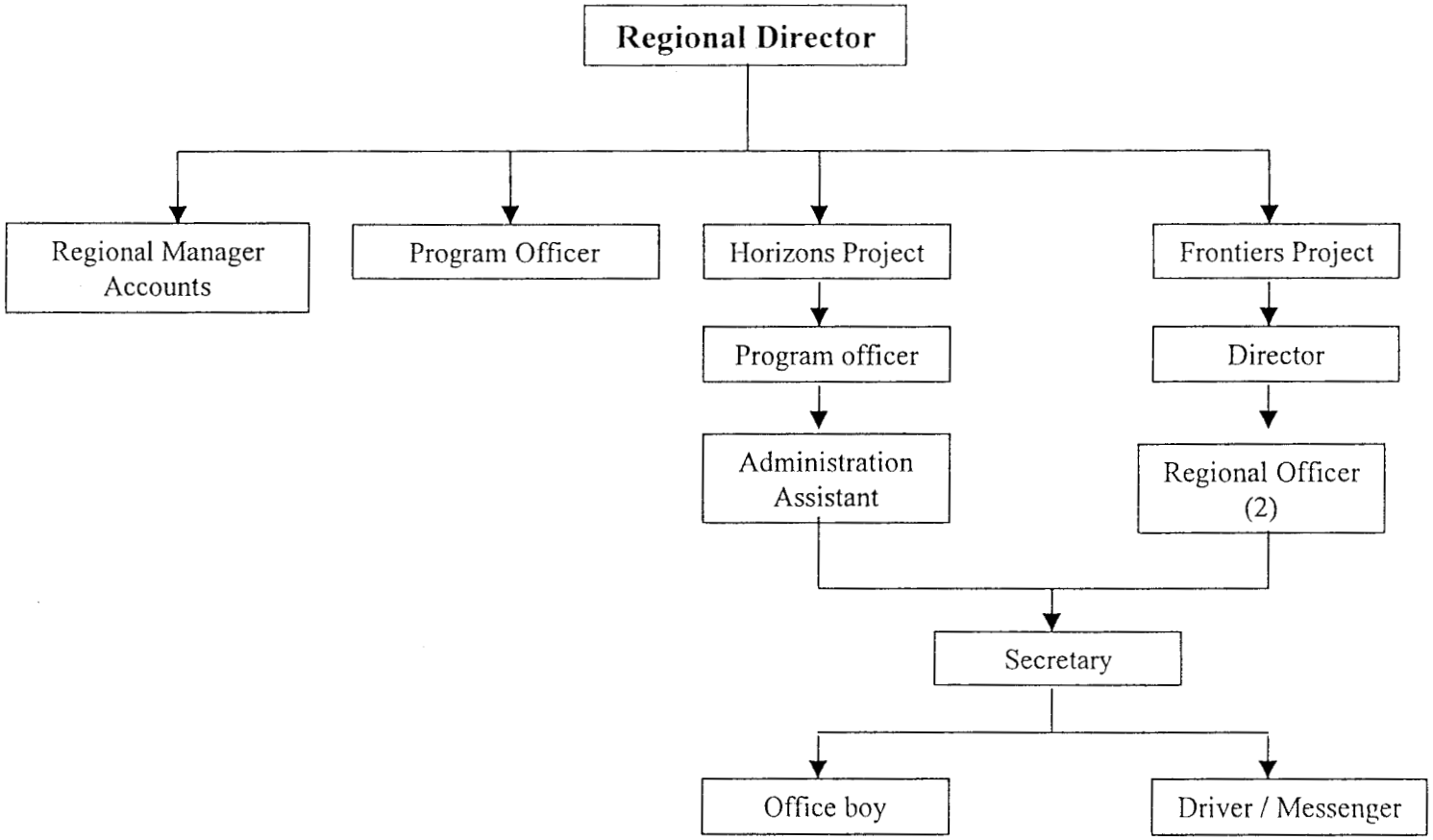
Bank book and BRS

- The bank payments for the projects funded by USAID i.e. frontiers and Horizon are made by the Central office of Population Council. The project authorities do not maintain bank book in respect of both the dollar and rupee account. The receipt and the payment bank transactions therefore remains unaccounted on a daily basis. At any particular point of time the bank balance both in dollar and rupee account cannot be known. Further, the bank payment vouchers are not numbered. On loss of any voucher the expense may remain unaccounted.

EXHIBIT - VI

POPULATION COUNCIL

ORGANISATION STRUCTURE



The project authorities prepare bank reconciliation statement at the end of the month after preparing the expense report for the month and comparing the expense report with the bank statement for payments made by cheque.

The project authorities informed that since the number of transactions are not high the maintenance of bank book was not felt necessary.

Common expenses

- The salary and other costs (e.g. rent) incurred on the Regional Director and Program officer are charged to each of the projects at the rate of 5% of the total costs. No charge is made of the salary of the Regional Manager - Accounts who also carries out accounting for the USAID funded projects.

  AFF was informed that no charge of the salary of the Regional Manager- accounts is done to the USAID funded projects as the post was not sanctioned. His salary expenses are claimed by Head office from USAID (W) as overheads.

Compliance with the agreements

The co-operative agreement for the Frontiers project was not made available for our review

Population council's global co-operative agreement with USAID (W) (for Horizons project) does not specify the specific clauses/ provisions for the India operations. The agreement was applicable to the extent of travel and procurement guidelines. Other clauses in the agreement i.e. budget, reporting and evaluation, key personnel, indirect cost, etc. are applicable for the organisation as a whole and therefore complied with by the HO.

The project office has generally complied with the agreement to the extent applicable. In addition, the project office has its own internal guidelines, which are generally been followed.

Travel guidelines

- The project authorities reimburse actual expenses as against the rates prescribed by USAID. However during the course of review it was observed that the actual expenses reimbursed were within per diem rates prescribed by USAID.

- The project authorities allow business class in case of International travel as against economy class prescribed by USAID. During the course of the review an international visit was made by a Program Officer by business class.

  The project authorities clarified that the above are as per the internal guidelines of Population Council.

APPENDIX I

Work Plan for Financial Review of INTRAH, PATH and Population Council

The work plan, contains the following,

(1) Our understanding of the task (schedule 1)

(2) Broad activities which we propose to carry out to address the task objectives (schedule 2)

(3) Basis of sample selection for the financial review (schedule 3)

(4) Time schedule of financial review activities (schedule 4)

APPPENDIX I
Schedule 1

AFF's UNDERSTANDING OF THE TASK

Based on the statement of work for the task, our preliminary discussions with the concerned officials of the USAID, India and the three organisations our understanding of the task is discussed briefly in the subsequent paragraphs.

USAID, Washington has entered into grant/ cooperative agreements with the three organisations viz. INTRAH, PATH and Population Council for provision of technical assistance for the two projects, Innovations in Family Planning Services(IFPS) and Programme for Advamcement of Commercial Technology- Child and Reproductive Health Programme (PACT-CRH).

The task requires the financial review of the USAID funded activities of the above organisations (which may include one or more than one projects) in respect of the costs and the accounting systems and procedures relating to their India operations with a view to determine if (1) the costs incurred under the grant are allowable (2) an adequate system of internal control is maintained, and (3) the grantee has complied with the agreement terms

The financial review is to be carried out for the period commencing from October 1, 1998 and ending on April 30, 2000.

Brief understanding of the operations of the organisations to be covered as part of the financial review is as follows:

INTRAH

INTRAH is one of the projects undertaken by the University of Carolina, Chapel Hills. In India, it provides technical assistance in support of the Innovations in Family Planning Services Project (IFPS) in collaboration with SIFPSA.

The New Delhi office is the Regional Office (RO) for Asia/ Near East and is headed by a Regional Director.

INTRAH office in India, incurs expenses in respect of India operations, In addition incurs expenses on behalf of for other offices in the Region (these are mainly travel related). Also as a RO it consolidates the expenses incurred by other offices in the region, for the purpose of submitting a consolidated expense statement to its headquarters in USA.

The original vouchers along with the supporting documents are sent to the INTRAH headquarters and photocopies of the same are retained at the RO.

PATH

PATH (Program for Appropriate Technology in Health) is an international, non-profit, non-government organisation involved in improvement of health, particularly the health of women and children. PATH's headquarters are located in Seattle, Washington.

In India, PATH provides technical assistance to the PACT-CRH project in collaboration with ICICI Limited. The India office is headed by the Resident advisor is an additional office.

POPULATION COUNCIL

Population Council is a non- profit, non- government organisation, which focuses on the reproductive health of women and the population trends.
In India, following projects funded by USAID are being implemented by Population council

- Horizons
- Frontiers
- ECC project (closed in January 1999)

The Delhi office acts as the Regional Office for South & East Asian countries and is headed by the Regional Director
The Delhi office handles expenses relating to the local office only and vouchers in original are kept at Delhi office. Only a statement of account is submitted by the India office to its Headquarters

APPENDIX I
Schedule 2

BROAD ACTIVITIES WHICH WE PROPOSE TO CARRY OUT TO ADDRESS THE TASK OBJECTIVES

S. No.	Activity	Coverage/steps
STUDY OF THE DOCUMENTS		
1.	Study the co-operative agreements entered between the grantee organisations and USAID, Washington. *(Refer Note 1)*	Study and understand the terms and conditions of the agreements which have to be complied with by the grantee organisations
2.	Study the relevant clauses of the Federal Acquisition Regulation (FAR) and the AID handbook available with USAID/India Controller (CO).	Understand the terms and conditions as referred to in the relevant clauses to be complied with by the grantee organisations
3.	Study the internal guidelines (e.g. the standard operating procedures of INTRAH, personnel policies, etc.) of the grantee organisations	Ensure that the internal guidelines followed by the organisations adhere to the provisions of the co-operative agreement, FAR and the AID handbook
OVERALL REVIEW		
4.	Understand the overall organisation structure of the three organisations including the broad role and responsibilities of the various personnel involved.	♦ Understand the overall functioning and areas of responsibilities of the personnel ♦ Ensure there are adequate internal controls in the allocation of duties and responsibilities (e.g. segregation of duties, necessary approvals etc for appointments have been obtained) ♦ Identify the personnel directly/ indirectly involved in the execution of the activities as per the co-operative agreement ♦ Ensure that the employees at the relevant positions as specified in the co-operative agreement are employed

S. No.	Activity	Coverage/steps
5.	Understand the existing accounting (flow of transactions) and book keeping system	Obtain an understanding of : ♦ the existing systems and procedures and the underlying internal controls relating to the accounting system ♦ the books and records maintained to account for various transactions (This shall be done after detailed discussions with the concerned staff of the organisations) ♦ Ascertain the adequacy of records maintained for ascertaining the time spent by each category of employee (as approved in the co-operative agreement)
DETAILED REVIEW OF THE ACCOUNTING RECORDS		
6.	♦ Carry out a depth check for a sample transactions of various types (sample selection detailed in Exhibit II) ♦ Carry out vouching for the transactions in the sample selected (sample selection detailed in Exhibit II).*(refer notes 2 ,3 & 4)*	♦ Ensure that the laid down systems and procedures including internal controls are followed ♦ Ensure the following: ✓ All vouchers are adequately supported ✓ accuracy in arithmetical computations ✓ vouchers are serially controlled ✓ vouchers are defaced after payments are made ✓ correct account heads are used for booking transactions ✓ expenses are properly classified as capital and revenue ✓ prior approvals or authorizations have been obtained, wherever required ✓ all amendments/ alterations to the invoices are approved by the authorised signatory ✓ the costs are within the budgets received from the Headquarter of the organisation ✓ Proper records and internal controls exist in respect of advances to employees

S. No.	Activity	Coverage/steps
		✓ in respect of cost of employees, only the costs in respect of employees directly/ indirectly involved in the execution of the agreement are considered for reimbursement ✓ only project related expenses are considered for reimbursement i.e. no personal expenses have been charged to the project (e.g. car hire charges used for personal use but expenses booked to the project) ✓ In respect of salaries, the total number of mandays spent by each position is not in excess of the mandays budgeted unless specific approvals for the same have been obtained. *Note: In respect of the transactions for which a depth check has been carried out, document the flow of transactions from the point of origination till the time of entry in the books of account* ♦ Identification and quantification of costs which are ✓ Ineligible costs ✓ not supported with adequate documentation or are incurred without proper approvals ✓ duplicate costs ♦ Ensure that the common expenses like rent, administration costs have been properly allocated to the various projects undertaken by the organisation either in accordance with the terms and conditions of the co-operative agreement or following a reasonable basis *(Refer Note5).*

S. No.	Activity	Coverage/steps
7.	Scrutiny of the cash book/ expense report	Srutinise the cash book/ expense reports on a sample basis for the period under review and inquire for the unusual entries, if any.
8.	Check the Statement of Expenses (SOE)/ expense reports for the sample selected (detailed subsequently)	Ensure the following: ♦ Timely submission of SOE ♦ Reporting of correct expenses relating to the relevant period in the SOE ♦ The costs incurred have been properly classified and recorded (e.g. expenditure on non-expendable property - NXP have been recorded as capital expenditure and not as revenue expenses) ♦ Reconcile the total costs billed to and reimbursed by the Headquarters of the organisation with the accounting records maintained ♦ The correct exchange rates are applied for conversion of expenses in USD for reporting in SOE ♦ Review the system for adjustment of the initial deposits made for office/ residential space, telephone, etc. Ensure that these deposits are properly accounted for in SOE and necessary adjustments are made from time to time
REVIEW OF FUND MANAGEMENT		
9.	Review the fund (cash and bank) management activities and review the procedures adopted to control funds including the Bank Reconciliation Statement (BRS)	Ensure the following: ♦ Separate bank account is maintained for the project ♦ BRS is prepared at regular intervals (say monthly) ♦ Stale cheques are identified and have been properly accounted for ♦ Regular follow up with the bank is done, in respect of reconciliation items pertaining to wrong debits/ credits or

S. No.	Activity	Coverage/steps
		unknown debits/ credits, bank charges, etc. ♦ Bank confirmations are obtained at periodic intervals (say quarterly or at year-end) ♦ Excess cash balance is not maintained ♦ An appropriate system of physical verification of cash is followed
REVIEW OF NON - EXPENDABLE PROPERTY		
10.	Review the procurement procedures adopted for procurement of NXP items	Ensure the following: ♦ Prior approvals/ authorisations for purchase of the NXP items are obtained (wherever required) ♦ Adequate internal controls exist on receipt and issue of the NXP items ♦ Sound commercial practices were used and they were acquired at reasonable prices i.e. competitive quotations were invited and the NXP items were procured on the best available terms ♦ NXP items have been procured only from the places as specified in the co-operative agreement i.e. USA and India
11.	Review the accounting records maintained for NXP items	Ensure the following: ♦ NXP items have been properly classified and accounted for ♦ Proper records are maintained in respect of NXP (i.e. entries are recorded in the asset/ NXP register maintained, if any) ♦ Obtain a detailed schedule of the NXP items specifying the cost and the location as on a particular date
12.	Review the usage of the NXP items	The NXP items are used for purposes of the project

S. No.	Activity	Coverage/steps
13.	Review the system of identification and physical verification of NXP items	Ensure the following: ♦ The NXP items are safeguarded physically ♦ Find out whether the properties are insured and if they are, then examine the status of the insurance policies ♦ Review the title of the NXP items ♦ Review the physical verification sheets, if any Carry out a sample physical verification of NXP items *(by carrying out physical verification)*
COMPLIANCE		
14.	Compliance with terms and conditions of the agreement and the USAID regulations (e.g. Fly America Act)	♦ Ensure adherence and compliance with the relevant provisions of the agreements and the USAID Regulations ♦ Report issues of Non- compliance's
DRAFT AND THE FINAL REPORT		
15.	Hold discussion with the concerned officials of the grantee organisations based on the observations made during the course of the financial review	Obtain feedback/ comments from the officials and incorporate them in the report
16.	Submission of the draft report to USAID after discussions with the concerned officials at the respective organisations	Obtain feedback/ comments from the grantee organisations and the USAID officials on the draft report
17.	Submission of the final report	Completion of the study

Notes:

1: The cooperative agreements of the following organisations/ projects have been made available to us:

(a) *INTRAH (IFPS project)*
(b) *PATH (PACT-CRH project)*
(c) *Population Council - Project Horizons (The agreements for two projects Frontier and ECC have not been made available for our review)*

2: INTRAH India office is a regional office for South and Near East Asia There are expenses incurred in India on behalf of other countries. Since they are included in the expense reports sent from the INTRAH office, New Delhi to its Headquarters these expenses will form a part of our review.

3: Most of the expenses of the Regional advisor of PATH are paid and accounted for in the Headquarters in Seattle. Since they do not form part of the expense reports sent from India these expenses will not form part of our review.

4: In INTRAH the original vouchers along with the supportings are sent to the Headquarters in USA. Thus the review shall be carried out based on the photocopies of the vouchers and supporting documents.

5: The question of allocation of costs to the different projects is relevant only for Population council as it is carrying out projects for agencies besides USAID. The other two organisations i.e. INTRAH and PATH are carrying out activities only for USAID.

6: No field visits are envisaged as a part of the review.

APPENDIX I
Schedule 3

BASIS OF THE SELECTION OF THE SAMPLE

1. The selection of the sample would be based on the following:

   a The period of financial review
   b The volume of transactions during the period of review
   c The nature of the transactions
   d The volume of transactions
   e Results of the financial review (for revision in sample size, if considered appropriate)

2. The proposed samples have been selected based on the discussions with the concerned officials at the three organisations. This is subject to modification based on the actual execution of the review and the results thereof.

GENERAL TECHNIQUE OF SAMPLE SELECTION

Serial. No	Expense head	Sample selected	Remarks / additional points
VOUCHING SAMPLE			
(1)	Vouching* (Cash and bank vouching)	Carry out vouching of the cash and bank transactions selected which would be selected using the nth approach (refer note 1) or a random selection representative of the nature and volume of transactions	.
BANK RECONCILIATION STATEMENTS			
(2)	Bank reconciliation statements*	**Dollar bank account** – for the months of December'98 and December'99. **QA-22 bank account** – for the months of December'98, May'98 and December'99	

Serial. No	Expense head	Sample selected	Remarks / additional points
DEPTH CHECH SAMPLE AREAS (refer note 3)			
(3)	Travel expenses	Carry out a depth check for the transactions selected which would be selected by scrutiny of the transactions in the sample period and selection on a random basis representing the nature of travel and the amounts	.
(4)	Salaries * includes the following: • TDS on salaries • Deductions • Pensions • Retirement benefits • Overtime • Medical • Insurance • Allowances • Uniform expenses • Any other items	Carry out a depth check for the salaries of any one month in respect of the following: Total 6 employees, 2 of each class as per the organization structure (for each organisation)	The aspects to be looked into would include: • TDS on salaries • The due dates of depositing of the deductions • Increments and their approvals • Overtime autorisations • computation of retirement benefits, pensions and bonus • Eligibility to the allowances and the other facilities and benefits.

Serial. No	Expense head	Sample selected	Remarks / additional points
(5)	Purchases * including inventory	Purchases may be in respect of the following : • Fixed assets • Small equipments and • Office supplies. Carry out a physical verification of 10% of the total assets. Carry out a depth check for the sample selected which would be selected by scrutiny of the transactions in the sample period and selection on a random basis representing the nature of purchases and the amounts	.
(6)	Office rent	Expenses in respect of any two months of the sample period	The aspects to be looked into would include: • Overall reconciliation of the total rent paid with the rent agreement. • The budget provided for the total rent • Payment of rent

Serial. No	Expense head	Sample selected	Remarks / additional points
(7)	Sub contracts (applicable for population council only)	Carry out a depth check any two sub-contracts of Horizons	The aspects to be looked into would include: • Compliance with guideline in the co-operative agreement for sub-contracts • Prior approval • Budgets • Sub- contractor reporting • Payment of the expenses • Technical aspects
(8)	Staff advances	Check six transactions of staff advances	Scrutiny of the transactions with a view to select a sample on a random basis representing the nature of advances and the amounts. The aspects to be looked into would include : • Payment expenses • Subsequent adjustments • Inquire into any old outstanding advances, if any. • Accepting treatment - should not be reported as expenditure.

Serial. No	Expense head	Sample selected	Remarks / additional points
(9)	Other office expenses	Carry out a depth check of one transaction of each type:	The transaction will be selected while carrying out a scrutiny of the cash book/expense report The aspects to be looked into would include : • Payments (covered under cash/bank vouching) • Compliance with the guidelines, if any
SCRUTINY OF CASH BOOK/EXPENSE REPORT			
(10)	Scrutiny of cash book/expense report	Srutinise the cash book/ expense report for any five months of the sample period	
CHECKING OF THE SOE'S			
(11)	Checking of the SOE's	Checking for any five months of the sample period	

Note 1: The nth approach means the following:

- *The population size i.e. the total number of vouchers in the period of review*
- *- The sample size (i.e. the number of vouchers that would be checked) would depend upon the total number of transactions during the period*
- *Population size/sample size will give us a number which will be the nth number*
- *Starting at random from any number every nth voucher would be checked*

*Note 2: * implies that an filling up the internal control questionnaire shall be filled up for these areas.*

Note 3: Depending upon the accounting systems of the organisation, any of the areas listed may not be applicable or there may be an additional area which has not been listed above.

APPENDIX 1
Schedule 4

TIME SHEDULE OF FINANCIAL REVIEW ACTIVITIES

1. The tentative time schedule for the financial review activities is as follows:

Serial No.	Activity	Expected time required
1.	Submission of the work plan	26/6/2000
2.	Discussion of the work plan with USAID	27/6/2000
3.	Financial review at INTRAH	5 days (28/6/2000 to 4/7/2000)
4.	Financial review at PATH	5 days (5/7/2000 to 11/7/2000)
5.	Financial review at Population council	5 days (12/7/2000 to 18/7/2000)
6.	Preparation and submission of draft reports	7 days (19/7/2000 to 28/7/2000)

2. Discussions with grantee organisations and USAID shall be done after the receipt of the comments on the draft report.

3. The final report shall be issued after the above discussions and incorporation of necessary changes based on the discussions.

APPENDIX II

OVERVIEW OF THE EXISTING SYSTEM - INTRAH

1. The existing systems and internal controls in respect of each of areas are discussed in the subsequent paragraphs. An overview of the existing system is also presented in the flow charts in schedules 1 to 9.

Receipt of funds and fund management

2. INTRAH office in India receives funds from its Head office on a monthly basis based on the requests sent by it. The funds are received for the region as a whole including for the country offices in Bangladesh and Yemen.

3. The funds are requisitioned on the basis of the estimated expenditure of India office and the other two country offices in the region. Funds are transferred to the country offices on the basis of the requests received from them.

4. INTRAH maintains two bank accounts (current accounts) a dollar account and a rupee account. Through the dollar account the following three types of transactions are carried out:

   (1) Receipt of funds from the Head office (in USD)
   (2) Transfer of funds to the country offices (in USD)
   (3) Transfer of funds to the rupee account for meeting India office expenses

5. The Bank reconciliation statements (BRS) is prepared regularly on a monthly basis and it is ensured that there are no long outstanding transactions pending clearances. The BRS along with the details of outstanding cheques are generated and forms part of the attachments to the monthly expense reports sent to the Head office.

Cash transactions

6. Cash is received for the following:

   (1) Receipt from the employees for personal STD/ISD calls and courier charges
   (2) Travel settlements
   (3) Receipt from other offices in the premises their share in the common expenses e.g. sweeper charges, utilities expenses etc.

7. Acceptances are issued to the payer and the cash book is updated for receipt.

8. The payments normally made in cash are as follows:

(1) Office supplies
(2) Local conveyance
(3) Courier charges
(4) Small repairs and maintenance
(5) Other small payments

9. For the routine cash payments no cash voucher is prepared but if cash is paid for a non-routine payment, cash payment voucher is prepared.

10. Cash is verified physically on a regular basis.

Bank payments

11. All major payments are made through cheques e.g. salary, major repairs & maintenance, fixed assets, payment to consultants, etc.

12. Adequate internal controls exist for payments through cheques. An illustrative list of the controls is as follows:

(1) Payments are made against original bills only
(2) The payees acknowledgement is obtained for all payments
(3) Payments are duly authorised
(4) The bank books are updated immediately on payment
(5) Vouchers are serially numbered.

13. Bank books are prepared for both the bank accounts, wherein the details of every transaction through the bank are entered.

Accounting for expenses

14. The expenses incurred by INTRAH are mainly in the nature of salaries, benefits, travel expenses, payment to consultants, procurement of fixed assets, Conveyance, courier, stationery, etc.).

15. The Head office has defined object codes (accounting codes) which are used by the project office for accounting of expenses for India operations and reporting to the Head office. The accounting aspects of various types of expenses and their internal controls are briefly discussed in the subsequent paragraphs.

Salaries and benefits

16. INTRAH has two types of employees:

(1) Internationally hired employees
(2) Locally hired employees

17. Out of the total staff strength employed in the India office, five employees are Internationally hired. Their appointment, salary payment and expenses booking are controlled from HO and no records for these expenses are available in India. Thus, the salary expenses of these employees could not be covered as a part of the financial review.

18. INTRAH follows laid down personnel policies approved by USAID (W). The personnel policies govern the appointment, salary increments, overtime, etc. of the employees.

19. The appointments of employees was with due approval from the Head Office. Similarly, the increments were also duly authorised.

20. The salaries were paid according to the scales in the appointment letters and the subsequent increments, if any.

21. All employees submit their monthly timesheets specifying the number of hours worked for different countries and the projects (activities within the program).

22. Proper leave records were found to be maintained

23. For overtime payments, prior approval of the concerned officials is taken and it is paid at the rates specified in the Personnel policies.

24. The employees are entitled to certain benefits e.g. medical, provident fund (employees can deposit 10% of their basic salary to the Public provident fund account and claim reimbursement for the same) etc for which proper records are maintained.

Travel expenses

25. Intrah has a set of Standard Operating Procedures, which lay down the travel rules and policies. These procedures have been laid down by the Head Office and have been approved by USAID (W). They are commensurate with the guidelines of USAID.

26. The Per Diems followed for International travel to USA and in country travel are not the same as specified by USAID guidelines but the ones specified by the INTRAH Head office. It was ensured that the internally specified Per Diems are lower than the ones specified by USAID. The Per Diems allowed for regional travel are specified by the USAID guidelines.

27. Prior approvals are taken from the designated places for each kind of travel. For e.g. for International travel to USA the approval of USAID (W) is sought.

28. The Fly America Act is followed whereby travel is made by a American carrier. And non-American carrier issued only to the closest point from where the American carrier is available. All travels as specified by the USAID guidelines are made by the economy class.

29. There are adequate internal controls on the advances given to employees for meeting the travel expenses. A schedule of outstanding advances is attached every month as a part of the expense report. The advances made are shown under cash advances and not shown as an expenditure in the expense reports till the time the final settlement of the travel is made.

Procurement of fixed assets (NXP property)

30. Purchase of the fixed assets is made only after the approval of the Head office is obtained.

31. There is an adequate system followed for purchase of fixed assets which broadly includes the following:

    (1) Calling of minimum three quotations
    (2) Placement of order after evaluation of the quotations
    (3) Due receipt and installation of the asset

32. As specified in the Co-operative agreement only USA brand is purchased unless it falls in any of the exceptions listed in the agreement.

33. All assets are properly labeled and the physical verification is carried out annually. Certain assets have been installed at the residence of the Regional Director. Physical verification is also carried out in respect of these assets which are identified for the project.

34. The asset register is maintained and updated on acquisition of the fixed assets.

35. Fire and burglary insurance have been taken for all the assets owned by INTRAH which is renewed on an annual basis.

36. All fixed assets are purchased in the name of INTRAH and used for the project.

37. None of the fixed assets have been disposed off during the period of review.

Consultants payment

38. Appointment of consultants is duly approved and is supported by the consultant's agreement.

39. The concerned project officials make payment to consultants after the execution of work by the consultants and due authorisation.

Preparation of Expense Report (ER)

40. The country offices (located in Bangladesh and Yemen) submit their expense report on a monthly basis to the Regional Head office (India). The India office prepares a consolidated expense report for the region as a whole and after approval of the Regional Director sends it to the Head office by 15th of next month.

41. The expenses are categorised country wise and account code wise. They are reported on cash basis of accounting i.e. all payments made during the month are reported.

42. A voucher wise detail of the expenses is also attached as a part of the expense report.

43. The reporting is done both in rupee and USD equivalent. A monthly weighted average exchange rate is applied for conversion of the expenses to USD for a month.

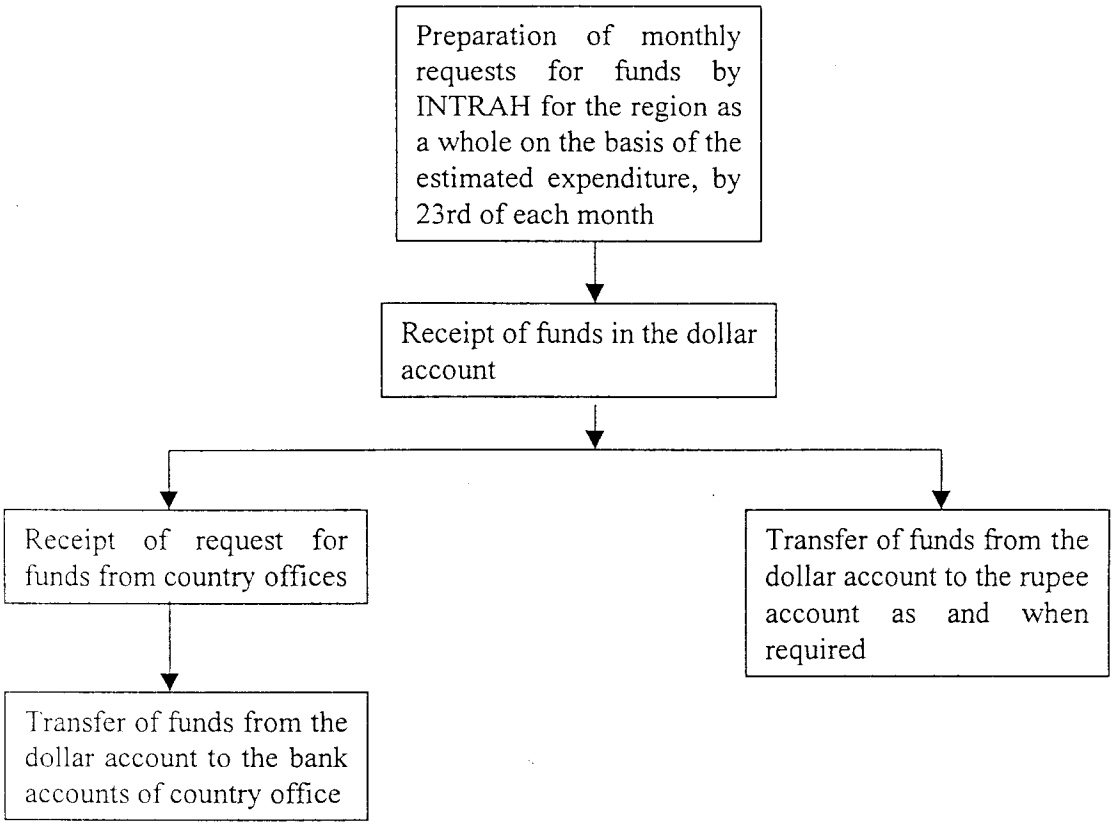
44. Following statements are sent to the Head office as a part of the monthly expense report for the India office.

    (1) Bank reconciliation statement (Indian rupee and US Dollars A/c.)
    (2) List of cheques issued
    (3) Void cheques
    (4) List of outstanding advances
    (5) List of transfers (Indian rupee and US Dollars A/c.)
    (6) List of demand drafts issued
    (7) Funding status report (advances from UNC and expenses booked)
    (8) Weighted average exchange rate summary
    (9) The original copies of the vouchers. (Thus the review was carried out on basis of the photocopies of the vouchers).

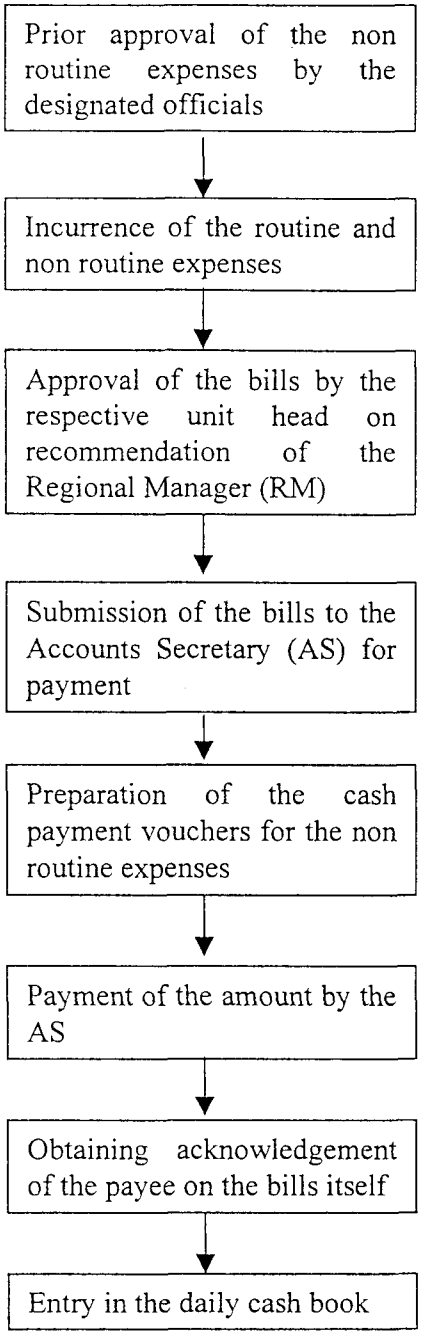
45. The India office is the Head office for the region and thus consolidates the expenses of other countries in the region in the expense report sent by it to the HO. These expenses do not form part of India's operations and thus were not a part of our review.

46. The project office gets its accounts audited for the purpose of submission of the audited report to the Reserve Bank of India. The auditors appointed also carry out a portion of the accounting for the project at the year end i.e. the preparation of the general ledger, trial balance, income and expenditure account and the balance sheet.

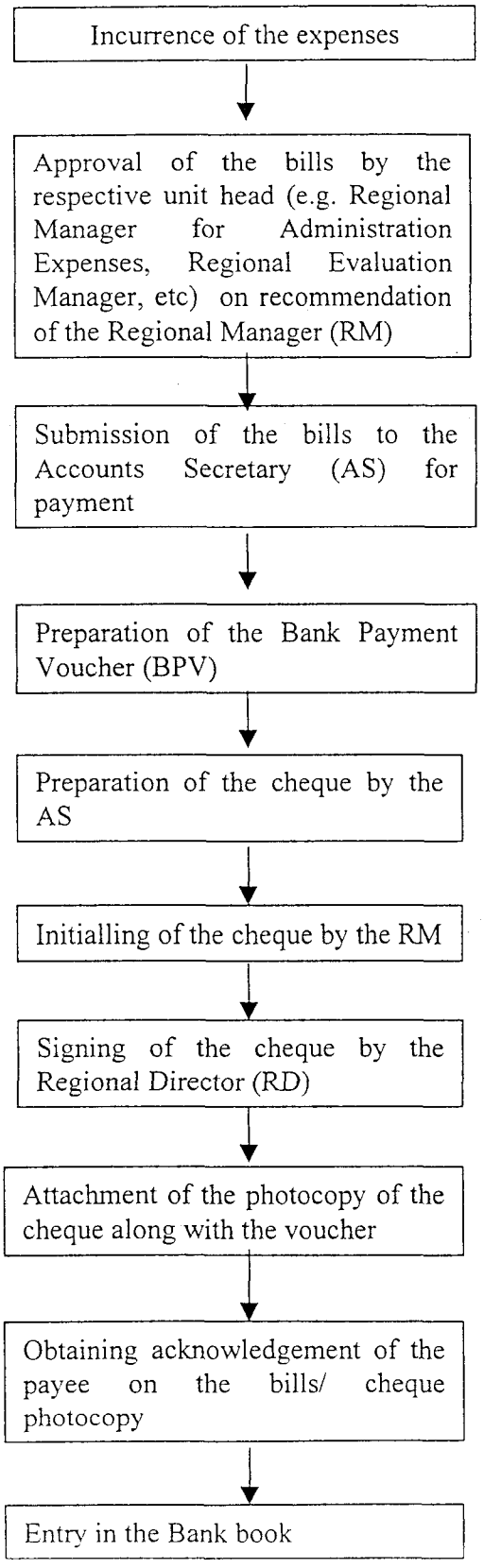
FLOW OF FUNDS



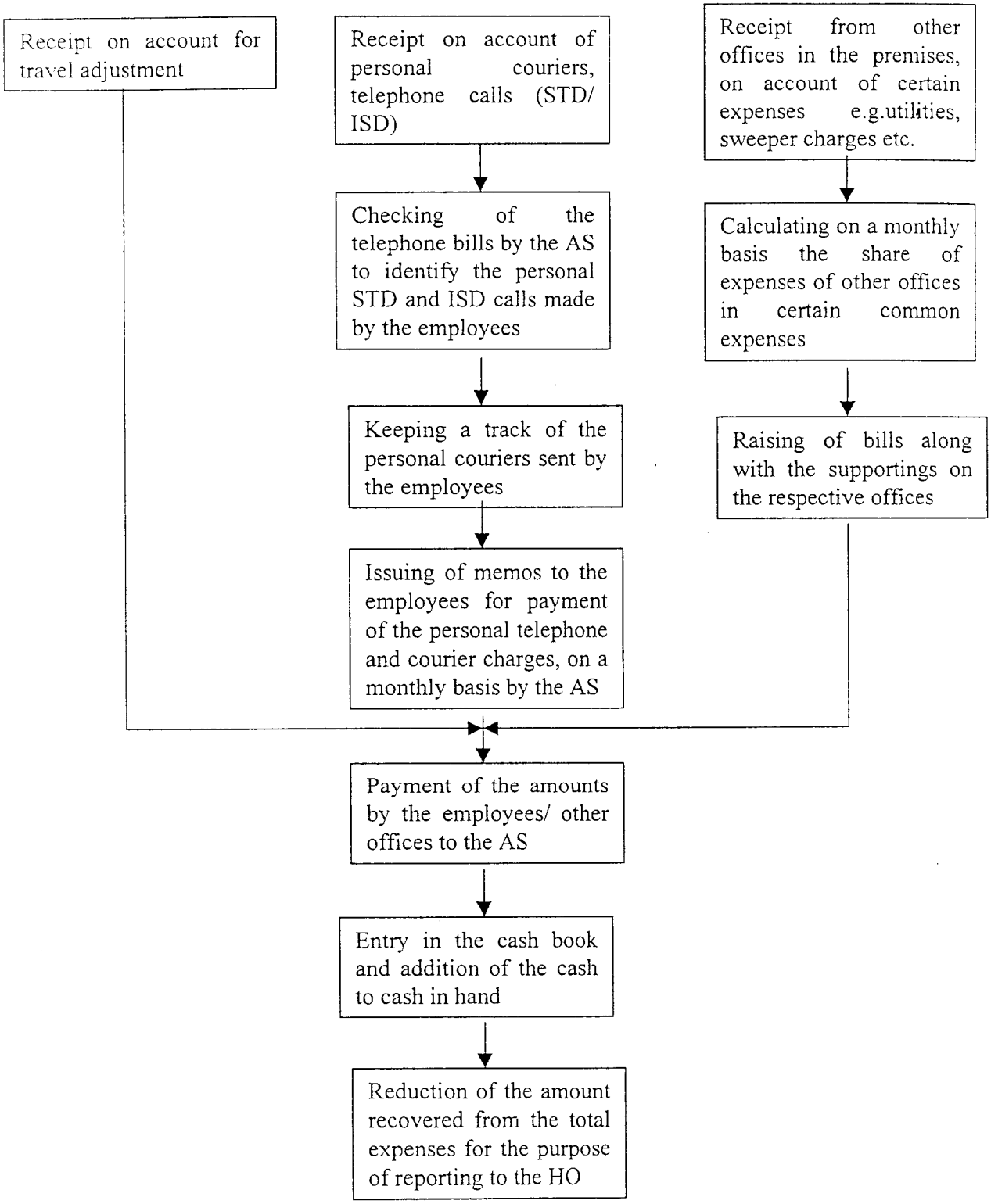
CASH PAYMENT SYSTEM



BANK PAYMENT SYSTEM

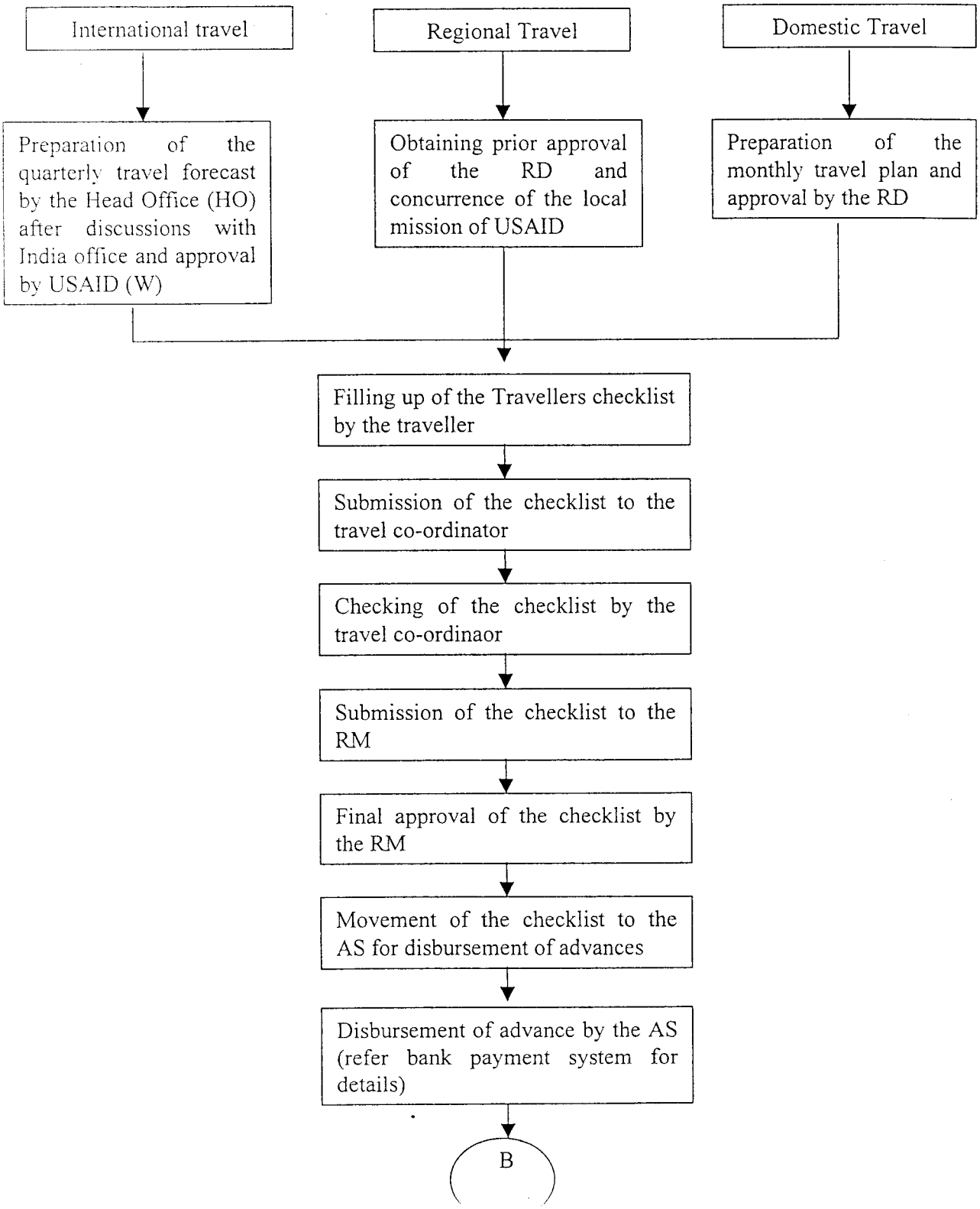


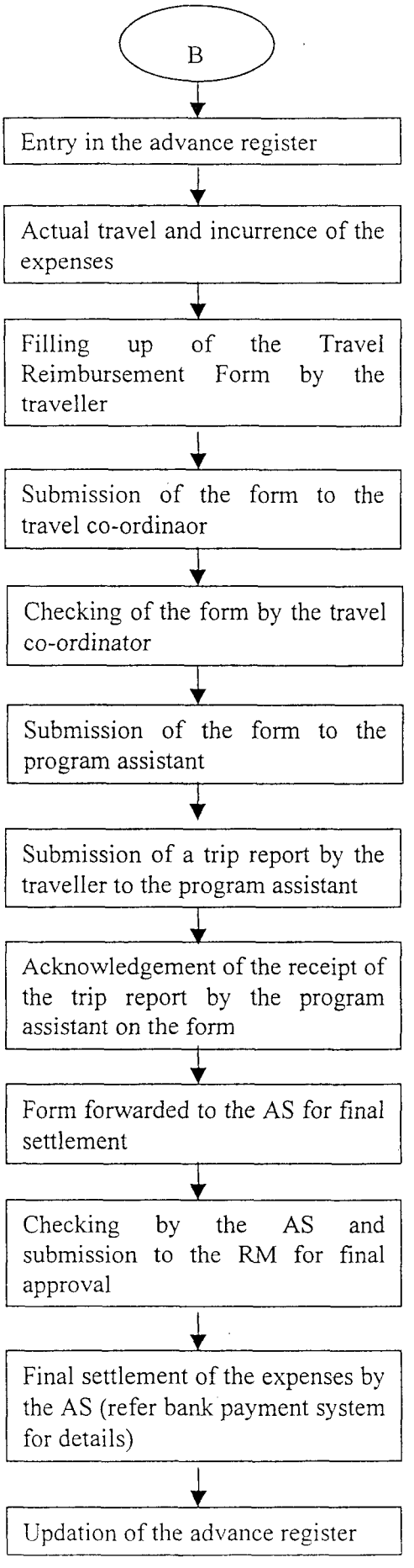
CASH RECEIPTS



ACCOUNTING SYSTEMS

TRAVEL EXPENSES

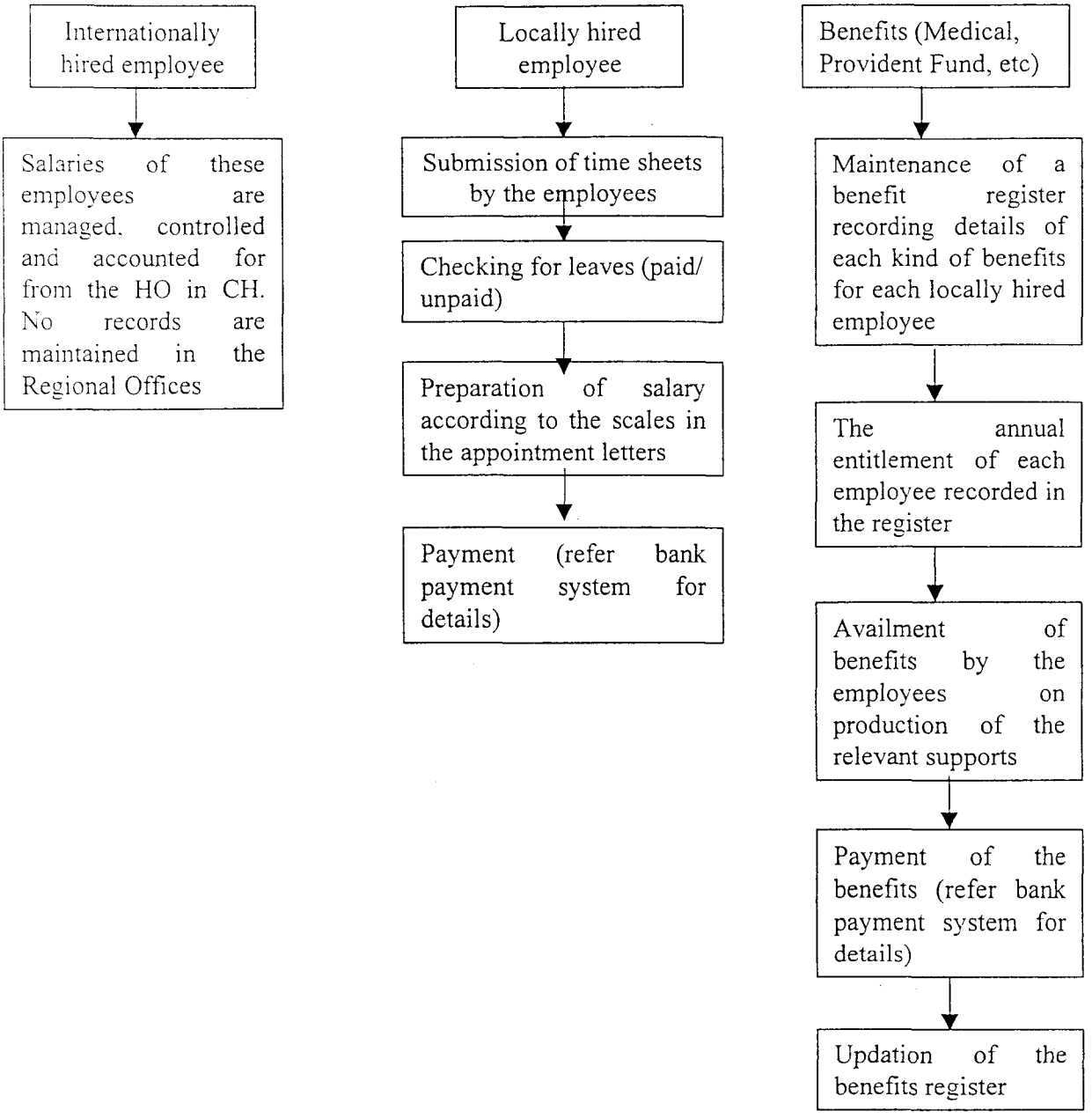



B
Entry in the advance register
Actual travel and incurrence of the expenses
Filling up of the Travel Reimbursement Form by the traveller
Submission of the form to the travel co-ordinaor
Checking of the form by the travel co-ordinator
Submission of the form to the program assistant
Submission of a trip report by the traveller to the program assistant
Acknowledgement of the receipt of the trip report by the program assistant on the form
Form forwarded to the AS for final settlement
Checking by the AS and submission to the RM for final approval
Final settlement of the expenses by the AS (refer bank payment system for details)
Updation of the advance register

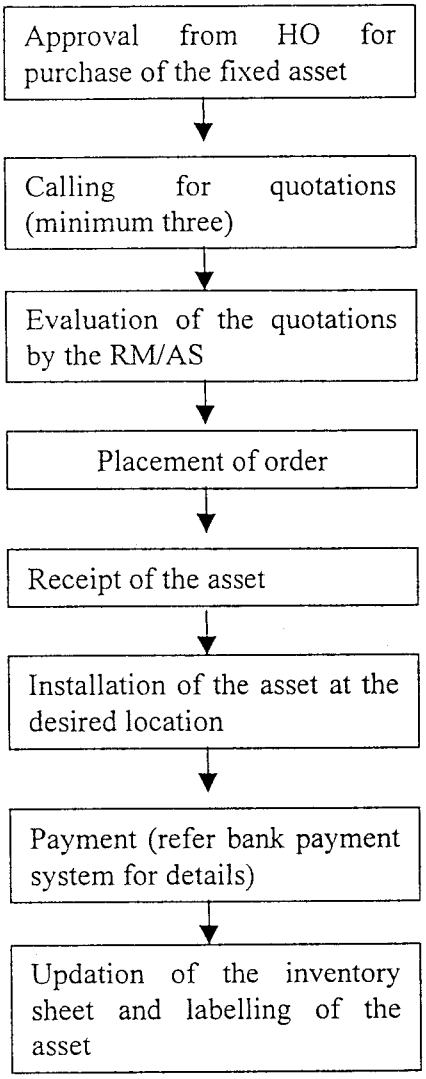
APPENDIX - II

Schedule - 6

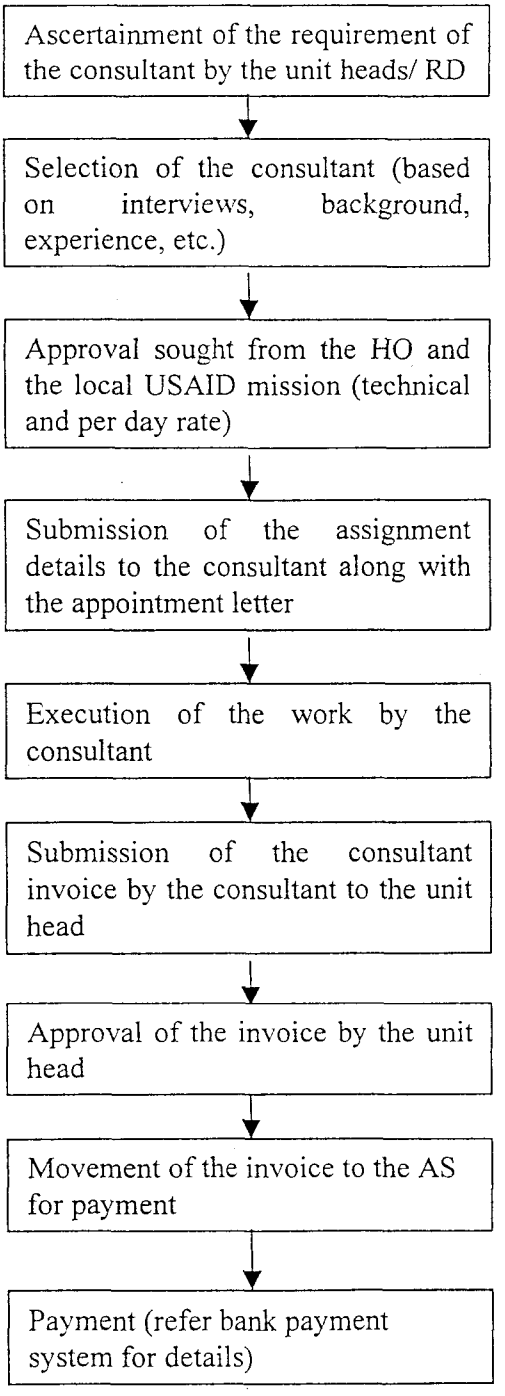
PAYMENT FOR SALARIES AND BENEFITS



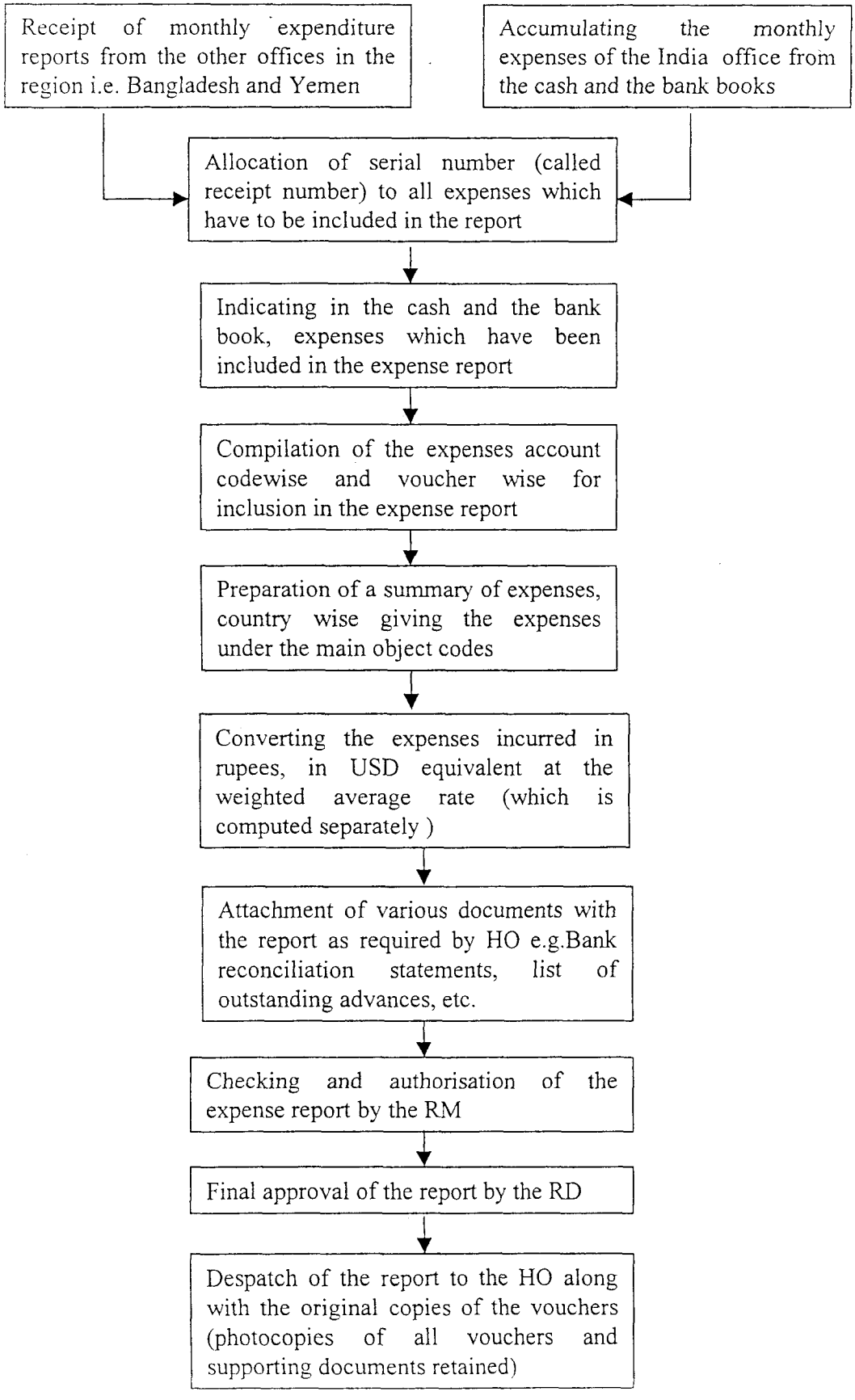
NXP PROCUREMENT



APPOINTMENT/ PAYMENT OF CONSULTANTS



EXPENSE REPORT PREPARATION



APPENDIX III

OVERVIEW OF THE EXISTING SYSTEM - PATH

1 The existing systems and internal controls in respect of each of areas are discussed in the subsequent paragraphs. An overview of the existing system is also presented in the flow charts in schedules 1 to 8.

Receipt of funds and fund management

2 PATH office in India receives funds from its Head office on a monthly basis based on the requests sent by it (prepared quarterly on the basis of the estimated expenditure of the India office)

3 PATH maintains one bank account (current account), which is a rupee account. The Head office releases funds in USD which are received directly in the rupee account converted at the rate of the day on which they are received.

4 The Bank reconciliation statements (BRS) are prepared on a monthly basis on basis of the expense report and the bank statement and it is ensured that there are no long outstanding transactions pending clearances

Cash transactions

5 Cash is withdrawn from the rupee account for day to day expenses. The cash receipts are also made on account of travel settlement.

6 The cash payments are normally made for the following :

(1) Office supplies
(2) Local travel
(3) Courier charges
(4) Small repairs and maintenance
(5) Other small payments.

7 Cash is verified physically on a regular basis.

Bank payments

8 All major payments are made through cheques e.g. salary, major repairs & maintenance, fixed assets, payment to consultants, etc.

9 Adequate internal controls exist for payments through cheques. An illustrative list of the controls is as follows:

(6) Payments are made against original bills only
(7) The payees acknowledgement is obtained for all payments
(8) Payments are duly authorised
(9) The bank books are updated immediately on payment
(10) Vouchers are serially numbered.

Accounting for expenses

10 The expenses incurred by INTRAH are mainly in the nature of salaries, benefits, travel expenses, payment to consultants, procurement of fixed assets, conveyance, courier, stationery, etc.).

11 The Head office has defined line items (accounting codes) to which the expenses are debited as and when they are incurred. Besides, the PACT-CRH project has been given a project code to identify all PACT-CRH expenses.

12 The accounting aspects of various types of expenses and their internal controls are briefly discussed in the subsequent paragraphs

Salary expenses

13 PATH has two types of employees:

(1) Internationally hired employees
(2) Locally hired employees

14 The Resident Advisor of PATH is an international hire. Her appointment, salary payment and expenses booking are controlled from HO and no records for these expenses are available in India. Thus, the salary expenses of these employees could not be covered as a part of the financial review.

15 PATH follows personnel policies laid down by the Head office. The personnel policies govern the appointment, salary increments, overtime etc. of the employees located at New Delhi.

16 The appointments of employees was with due approval from the Head Office. Similarly the increments were also duly authorised.

17 The salaries were paid according to the scales in the appointment letters and the subsequent increments, if any.

18 All employees submit their monthly timesheets specifying the number of hours worked for different projects.

19 Proper leave records were found to be maintained.

20 For overtime payments, prior approval of the concerned officials is taken and it is paid at the rates specified in the Personnel policies.

21 The employees are entitled to certain benefits e.g. medical, provident fund (employees deposit 10% of their basic salary to the Public provident fund account and claim reimbursement for the same) etc for which proper records are maintained.

Travel expenses

22 PATH has a set of Travel regulations, which lay down the travel rules and policies. The Head Office has laid down these procedures.

23 The Per Diems followed for International travel to USA and in country travel are specified by the INTRAH Head office.

24 The Fly America Act is followed whereby travel is made by a American carrier. And non-American carrier issued only to the closest point from where the American carrier is available. All travels as specified by the USAID guidelines are made by the economy class.

25 The advances given to the employees are reported as expenditure in the monthly expense report of the month in which the advance is disbursed. The final settlement of the travel is made at the submission of the final bills. At this stage, if the advance is higher than the actual expenditure either it is allowed to be retained by the traveller for utilisation for the next trip (incase the next trip is to be made in a week) or the amount is refunded for which a negative claim is reported.

Procurement of fixed assets (NXP property)

26 Purchase of the fixed assets is made only after the approval of the Head office is obtained.

27 There is an adequate system followed for purchase of fixed assets which broadly includes the following:

(1) Calling of minimum three quotations
(2) Placement of order after evaluation of the quotations
(3) Due receipt and installation of the asset

28 As specified in the Co-operative agreement only USA brand is purchased unless it falls in any of the exceptions listed in the agreement.

29 All assets are properly labeled and the physical verification is carried out annually.

30 The asset register is maintained and updated on acquisition of the fixed assets.

31 Fire and burglary insurance has been taken for all the assets owned by PATH which is renewed on an annual basis.

32 All fixed assets are purchased in the name of PATH and used for the project.

33 None of the fixed assets have been disposed off during the period of review.

Consultants payment

34 Appointment of consultants is duly approved and is supported by the consultant's agreement.

35 The concerned project officials make payment to consultants after the execution of work by the consultants and due authorisation.

Preparation of Expense Report (ER)

36 The PATH office in India prepares the expense report for the expenses incurred and after approval of the Regional Director sends it to the Head office by 15th of each month.

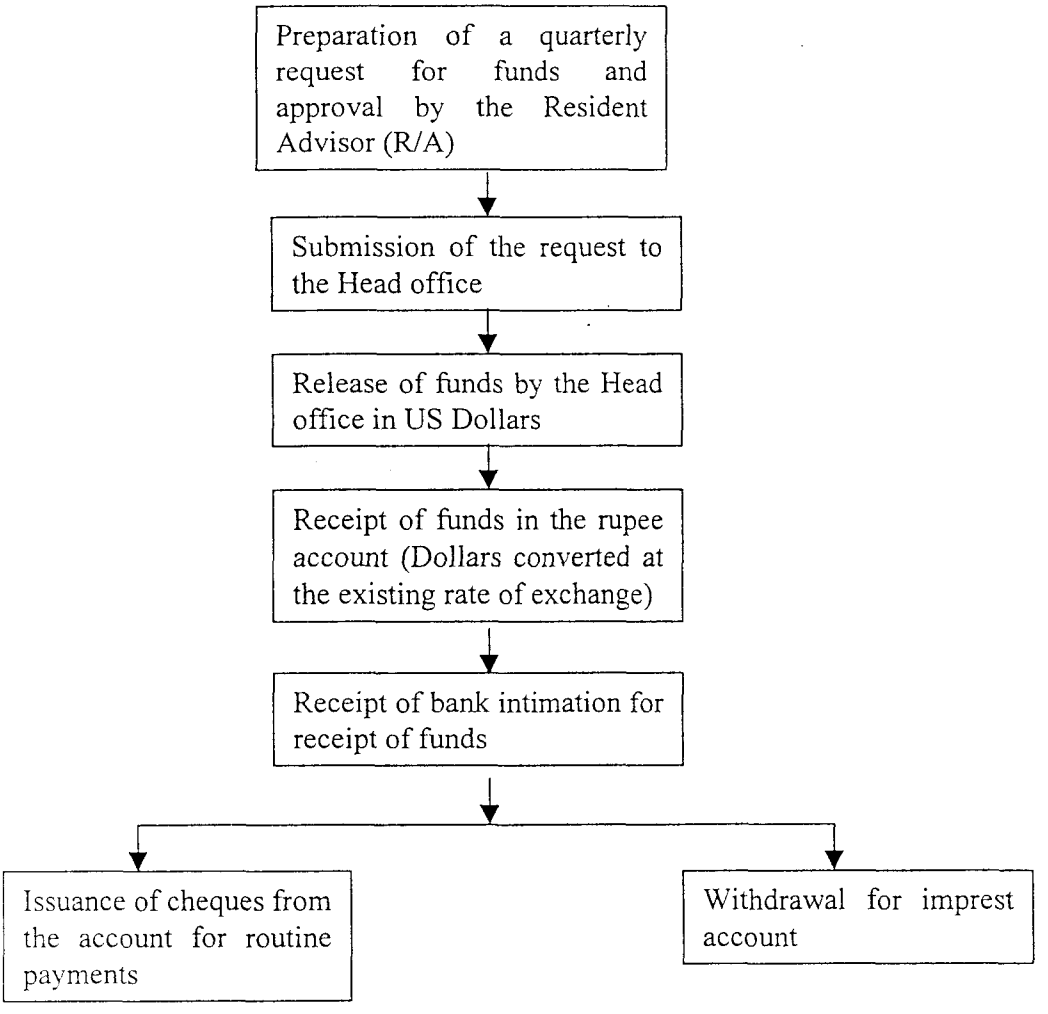
37 The cash expenses are reported account code wise whereas the bank payments are reported cheque number wise. The transactions are reported on cash basis of accounting i.e. all payments made during the month are reported. The expense report is prepared directly from the cash vouchers and the bank vouchers as no cash book and bank books are maintained.

38 There are certain expenses which are reported in the expense report but do not pertain to PACT- CRH project. They are captured under a different project code.

39 The exchange rate applied for conversion of the expenses to USD equivalent for a month is the rate at which the receipt was made in the rupee account for the month for which the reporting is to be made.

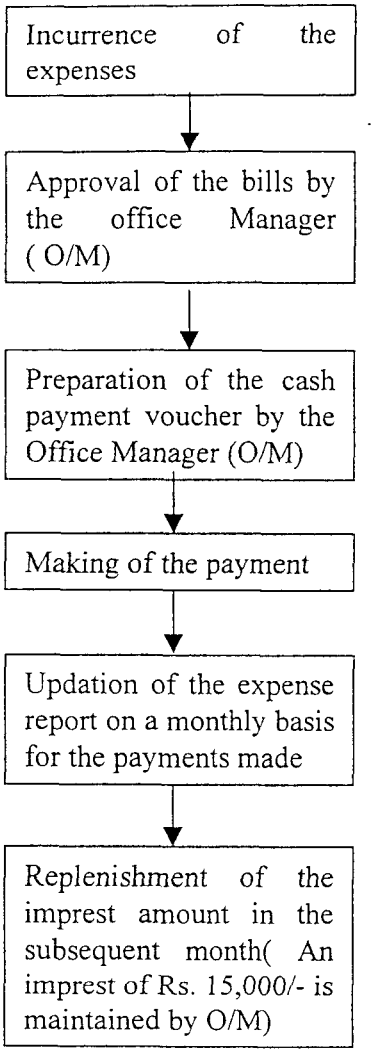
APPENDIX- III
Schedule -1

FUNDS FLOW STATEMENT

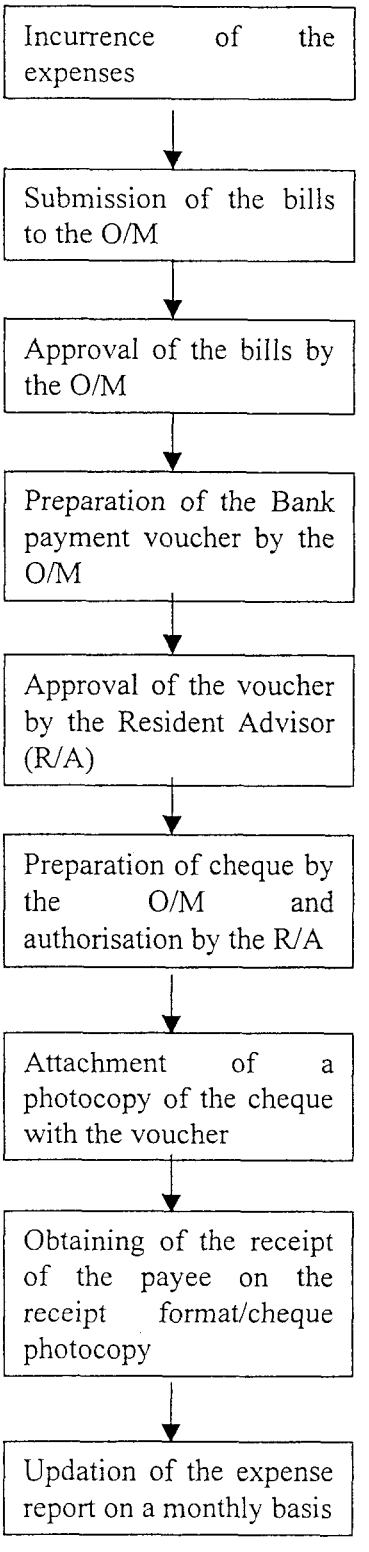


APPENDIX -III
Schedule- 2

CASH PAYMENT SYSTEM

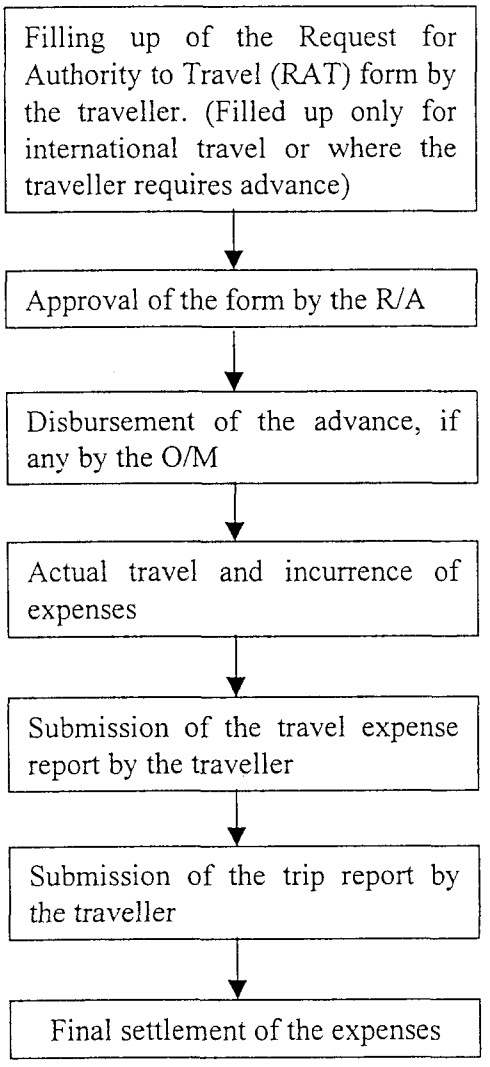


BANK PAYMENT SYSTEM

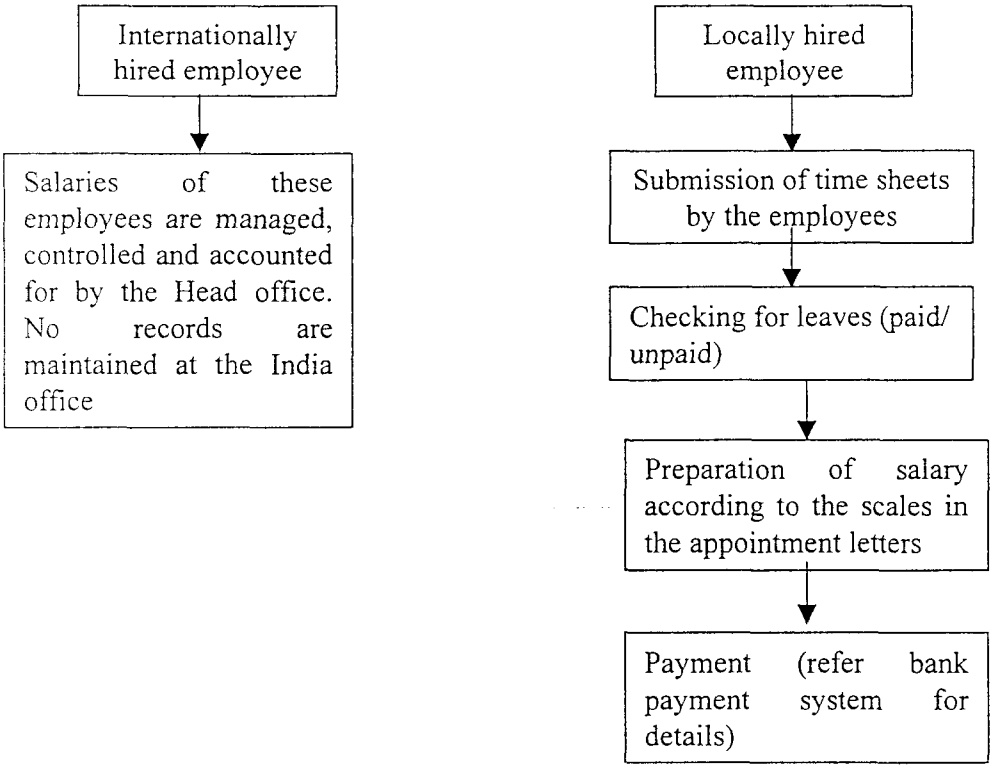


ACCOUNTING OF EXPENSES

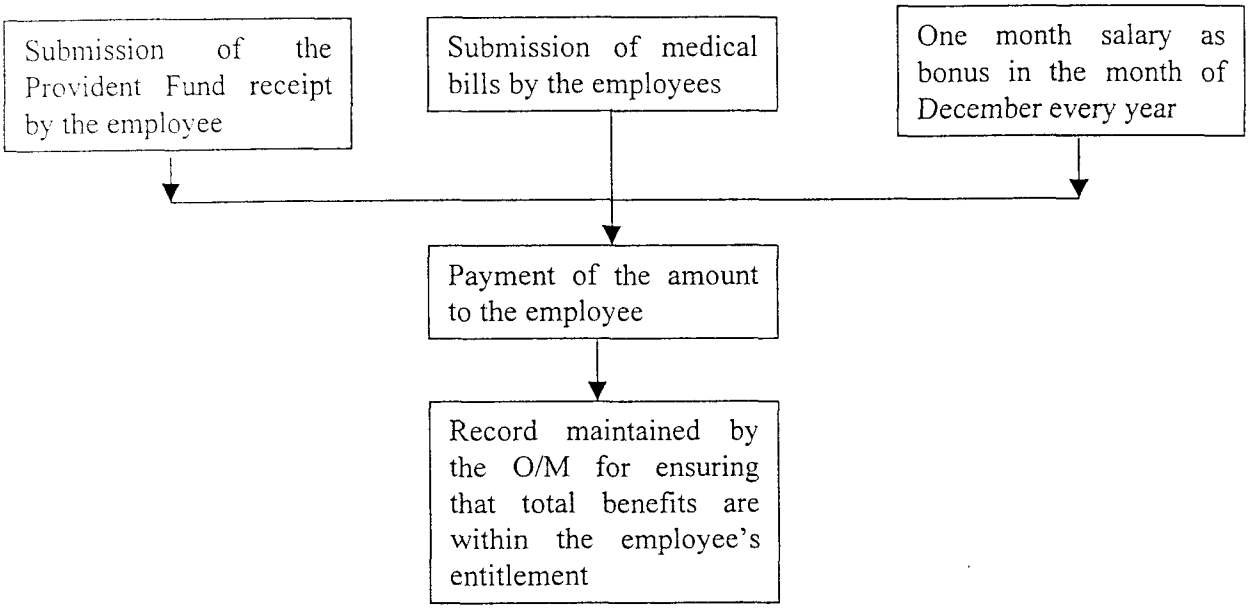
TRAVEL EXPENSES



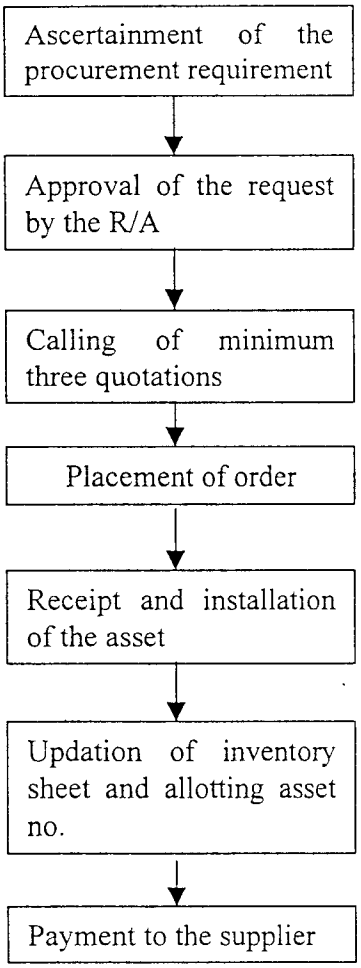
SALARIES


Internationally hired employee
Salaries of these employees are managed, controlled and accounted for by the Head office. No records are maintained at the India office
Locally hired employee
Submission of time sheets by the employees
Checking for leaves (paid/ unpaid)
Preparation of salary according to the scales in the appointment letters
Payment (refer bank payment system for details)

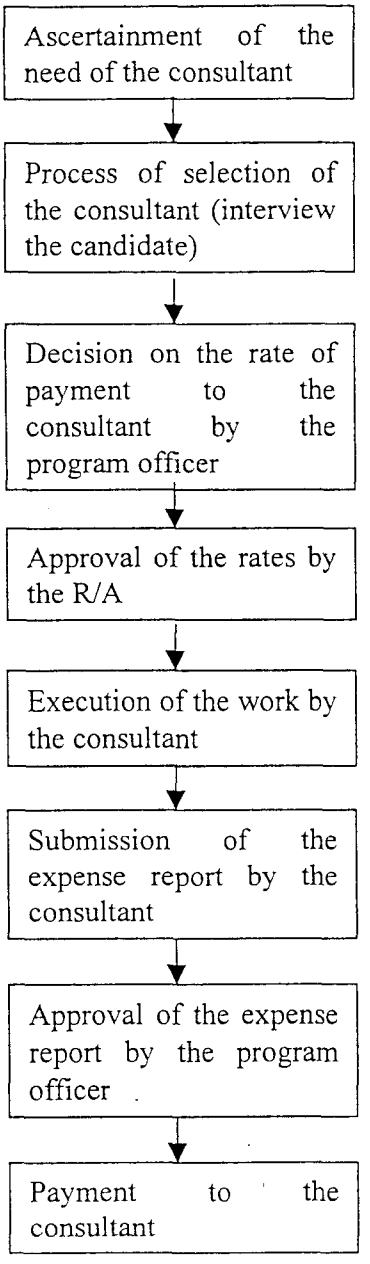
PAYMENT FOR BENEFITS



PROCUREMENT OF FIXED ASSETS (NXP PRPOERTY)

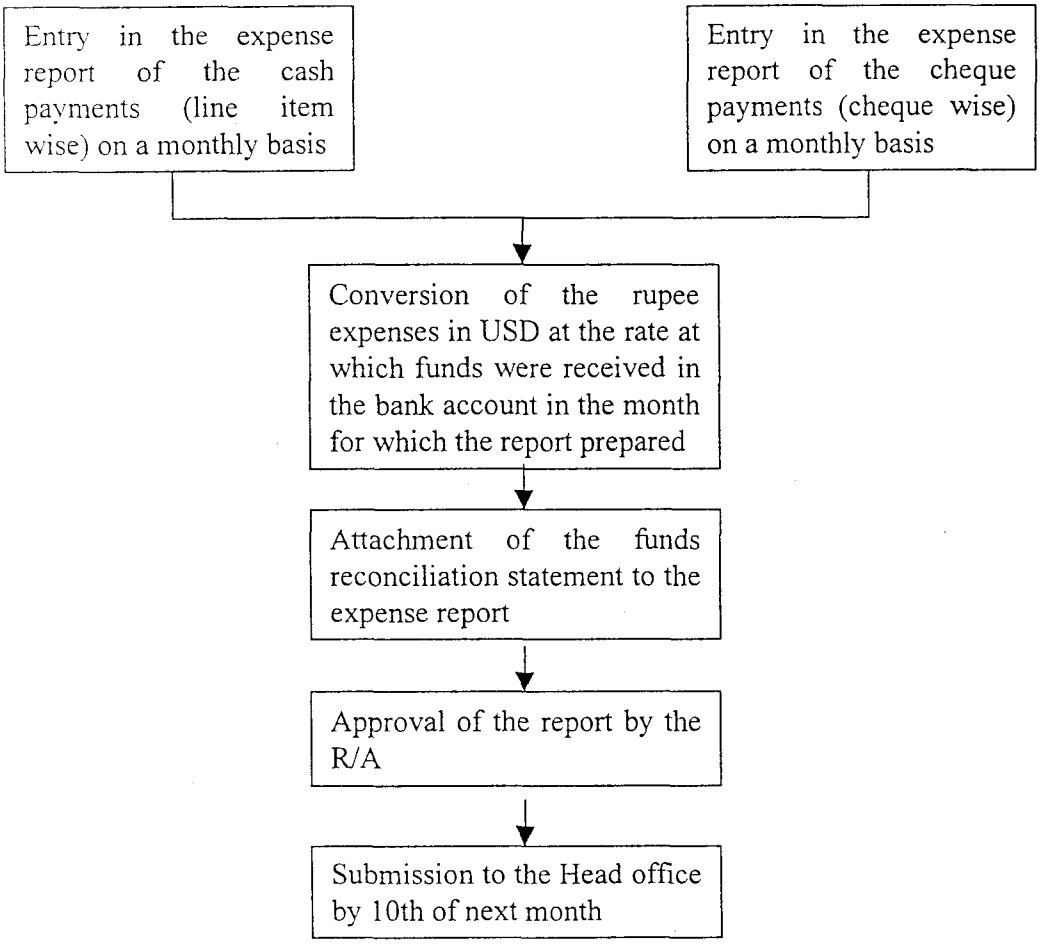


APPOINTMENT AND PAYMENT OF CONSULTANTS



APPENDIX -III
Schedule- 8

EXPENSE REPORT PREPARATION



APPENDIX IV

OVERVIEW OF THE EXISTING SYSTEM - POPULATION COUNCIL

1. The existing systems and internal controls in respect of each of areas are discussed in the subsequent paragraphs. An overview of the existing system is also presented in the flow charts in schedules 1 to 8.

Receipt of funds and fund management

2. The Population Council office in India submits the consolidated monthly expense report for all the projects to the Head Office and gets the monthly reimbursement for the expenses reported.

3. Population Council maintains two bank accounts – a dollar account and a rupee account. These bank accounts are common for all the projects carried in India since the reimbursement for all the expenses comes from the Head office through a common expense statement.

4. Funds are received from the Head office in USD and goes partly to the dollar account and partly to the rupee account. Funds are also transferred to the rupee account from the dollar account as and when required.

5. The monthly Bank reconciliation statement (BRS) is prepared on the basis of the expense report and the ban statement and it is ensured that there are no long outstanding transactions pending clearances. The BRS along with the details of outstanding cheques is generated and attached as a part of the monthly expense report sent to the Head office.

Cash transactions

6. Cash is withdrawn from the rupee account for day to day expenses. The cash receipts are also made on account of travel settlement.

7. The cash payments are normally made for the following :

   (1) Office supplies
   (2) Local travel
   (3) Courier charges
   (4) Small repairs and maintenance
   (5) Other small payments.

8. Cash is verified physically on a regular basis.

Bank transactions

9. All payments other than those listed in paragraph ***** above are paid through cheques.

10. Adequate internal controls exist for payments in cash and through cheques. An illustrative list of the controls is as follows:

    (1) Payments are made against original bills
    (2) The payees acknowledgement is obtained for all payments
    (3) Payments are duly authorised
    (4) The correct account codes are used for booking the expenses.

Accounting for expenses

11. As mentioned earlier Population Council incurs expenses for projects besides the USAID projects. There are separate codes for each project and the expenses are captured separately for each project under these codes.

12. The expenses incurred by Population council are mainly in the nature of salaries, benefits, travel expenses, payment to consultants, procurement of fixed assets, conveyance, courier, stationery, etc.

13. The Head office has defined object codes (accounting codes) to which the expenses are debited as and when they are incurred.

14. The accounting aspects of various types of expenses and their internal controls are briefly discussed in the subsequent paragraphs

Salaries and benefits

15. Population council has two types of employees:

    (1) Internationally hired employees
    (2) Locally hired employees

16. Out of the total staff strength employed in the India office, three employees are Internationally hired. Their appointment, salary payment and expenses booking are controlled from HO and no records for these expenses are available in India. Thus, the salary expenses of these employees could not be covered as a part of the financial review.

17. Population council follows personnel policies laid down by its Head office. The personnel policies govern the appointment, salary increments, overtime etc. of the employees.

18. The appointments of employees was with due approval from the Head Office. Similarly the increments were also duly authorised.

19. The salaries were paid according to the scales in the appointment letters and the subsequent increments, if any.

20. All employees submit their monthly timesheets specifying the number of hours worked on the projects.

21. Proper leave records were found to be maintained

22. For overtime payments, prior approval of the concerned officials is taken and it is paid at the rates specified in the Personnel policies.

23. On the salaries of the employees TDS is deducted and deposited with the Reserve Bank of India in the subsequent month. Similarly employee's contribution to provident fund is deducted and deposited with the commissioner of provident fund. The employer's contribution to the provident fund is a part of the total salary.

24. The employees are entitled to certain benefits e.g. medical, bonus etc for which proper records are maintained.

Travel expenses

25. Population council has a set of travel guidelines, which lay down the travel rules and policies. The Head Office has laid down these procedures.

26. The Per Diems rates followed for International travel to USA and domestic travel are not the same as specified by USAID guidelines but all travel expenses are reimbursed on actual basis. It was ensured that the reimbursement on an actual basis is lower than the Per Diem rates specified by USAID.

27. The Fly America Act is followed whereby travel is made by a American carrier. And non-American carrier issued only to the closest point from where the American carrier is available. All travels as specified by the USAID guidelines are made by the economy class.

28. There are adequate internal controls on the advances given to employees for meeting the travel expenses. A schedule of outstanding advances is attached every month as a part of the expense report. The advances made are shown under cash advances and not shown as an expenditure in the expense reports till the time the final settlement of the travel is made.

Procurement of fixed assets (NXP property)

29. Purchase of the fixed assets is made only after the approval of the Head office is obtained.

30. There is an adequate system followed for purchase of fixed assets which broadly includes the following:

    (1) Calling of minimum three quotations
    (2) Placement of order after evaluation of the quotations
    (3) Due receipt and installation of the asset

31. As specified in the Co-operative agreement only USA brand is purchased unless it falls in any of the exceptions listed in the agreement.

32. All assets are properly labeled and the physical verification is carried out annually.

33. The asset register is maintained and updated on acquisition of the fixed assets.

34. Fire and burglary insurance has been taken for all the assets owned by Population council, which is renewed on an annual basis.

35. All fixed assets are purchased in the name of Population Council and used for the project.

36. None of the fixed assets have been disposed off during the period of review.

Consultants payment

37. Appointment of consultants is duly approved and is supported by the consultant's agreement.

38. The concerned project officials make payment to consultants after the execution of work by the consultants and due authorisation.

Preparation of Expense Report (ER)

39. The India office prepares a consolidated expense report for all the projects as a whole and after approval of the Regional Director sends it to the Head office by 15th of next month.

40. The expenses are categorised project code and account code wise. They are reported on cash basis of accounting i.e. all payments made during the month are reported.

41. The expenses paid through cheques are reported in the expense report directly from the bank vouchers as no bank book is maintained.

42. The reporting is done both in rupee and USD equivalent. A monthly weighted average exchange rate is applied for conversion of the expenses to USD for a month.

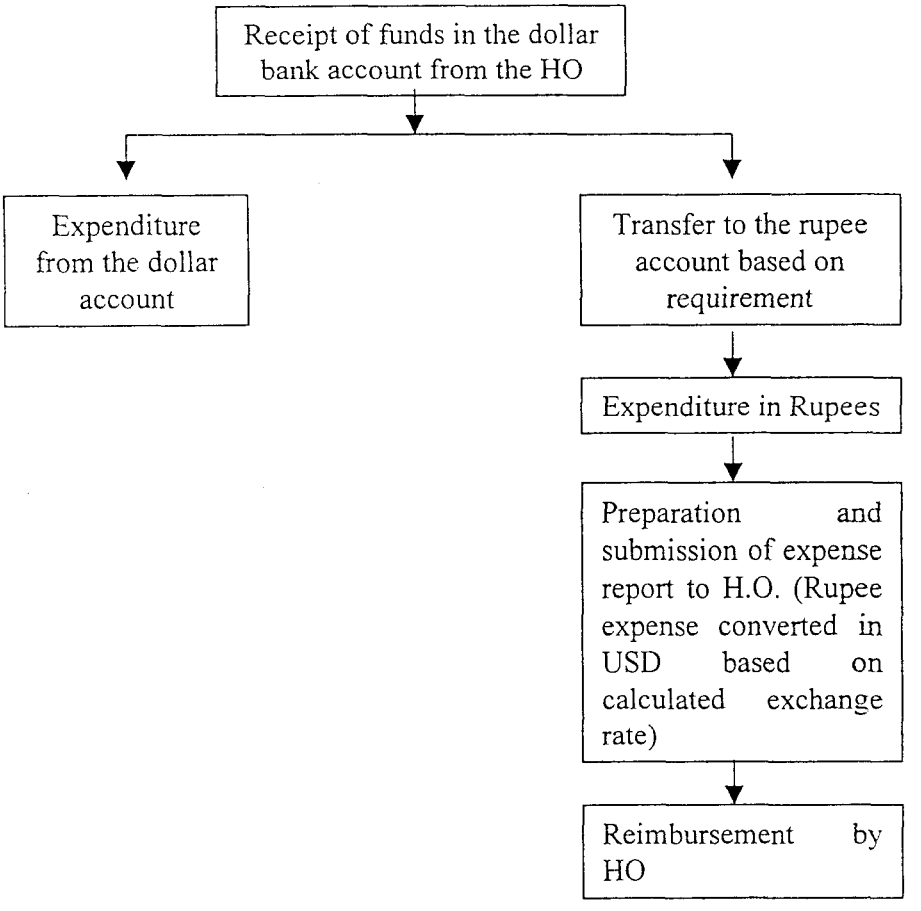
43. Following statements are sent to the Head office as a part of the monthly expense report for the India office.

    (1) Statement of calculation of exchange rate
    (2) List of outstanding advances
    (3) List of cheques outstanding
    (4) Bank reconciliation statement of both the accounts
    (5) Statement of receipts and disbursements of the photocopies of the vouchers.

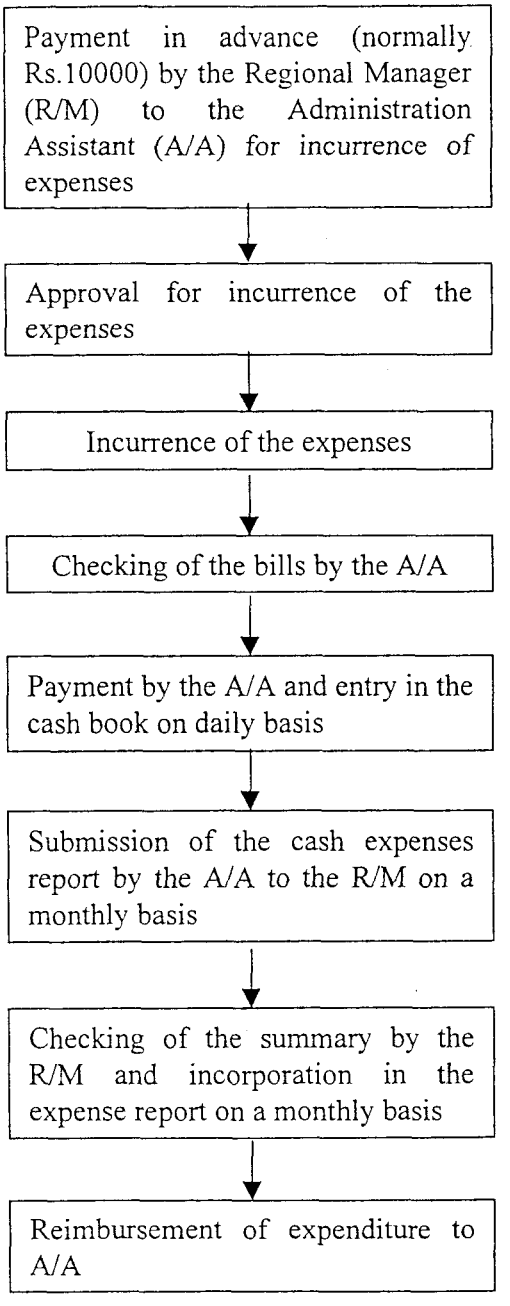
APPENDIX - IV

Schedule - 1

FUND FLOW STATEMENT

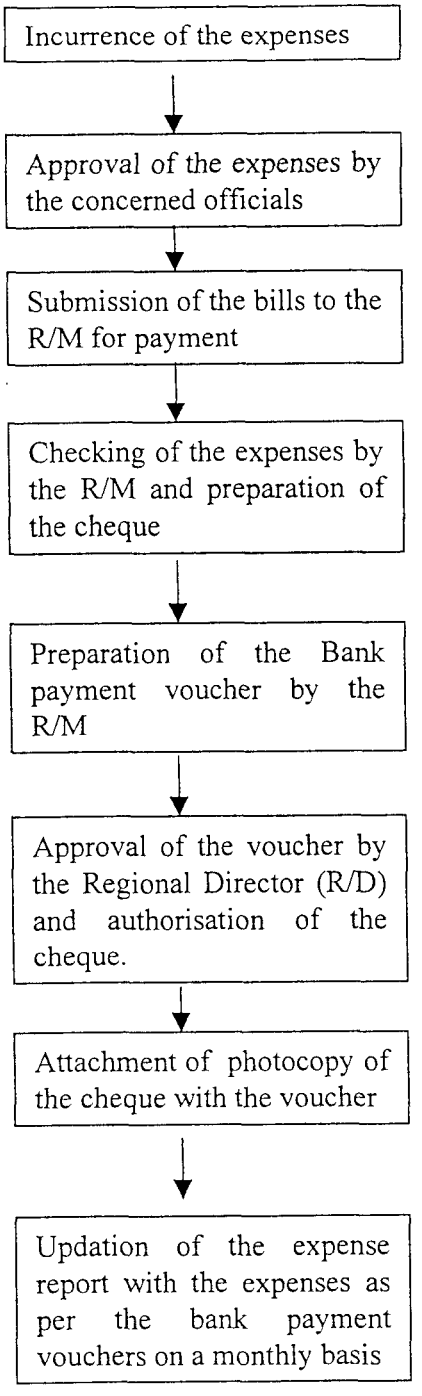


CASH PAYMENT SYSTEM



APPENDIX - IV
Schedule - 3

BANK PAYMENT SYSTEM

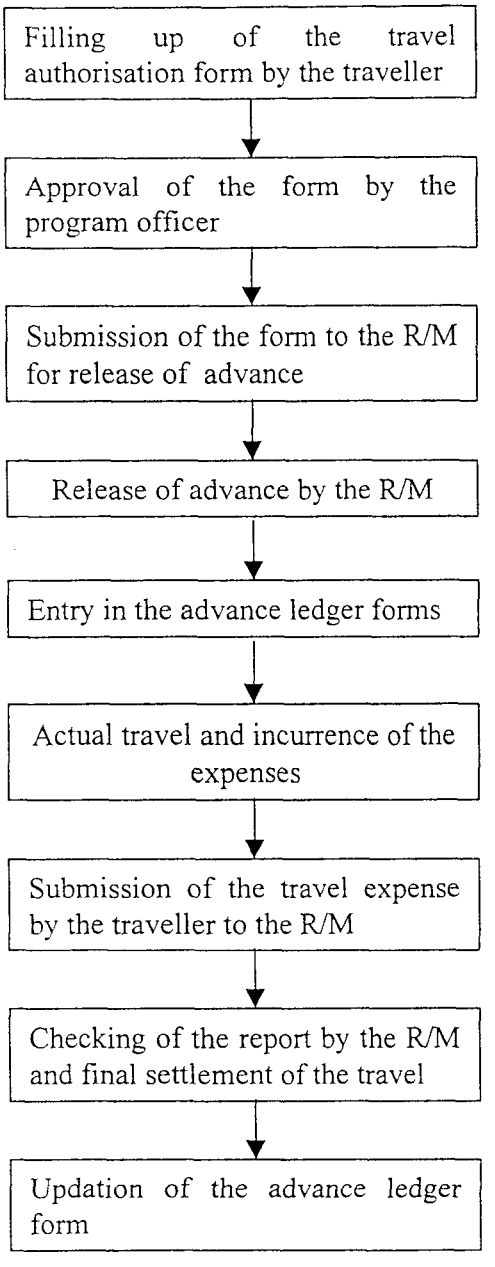


APPENDIX - IV

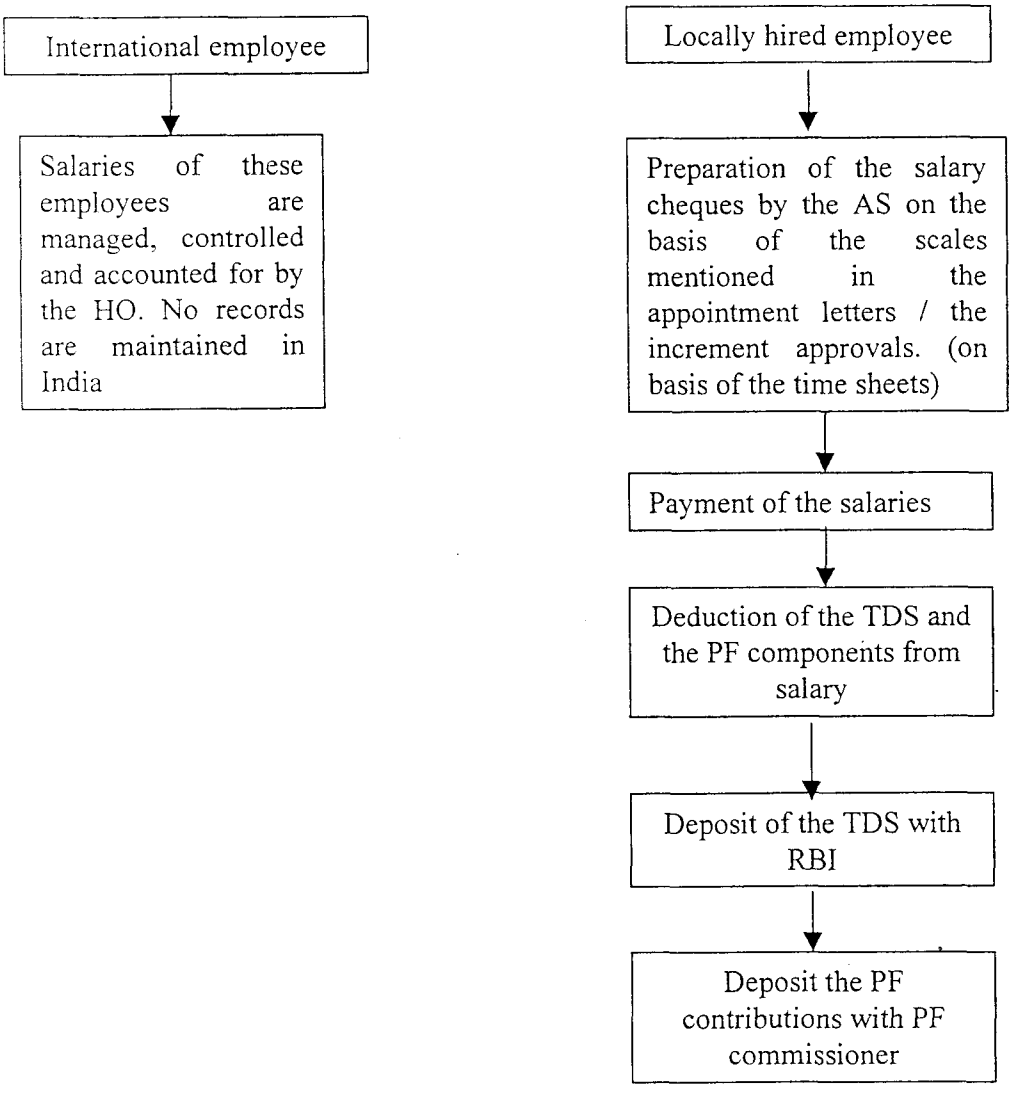
Schedule - 4

ACCOUNTING FOR EXPENSES

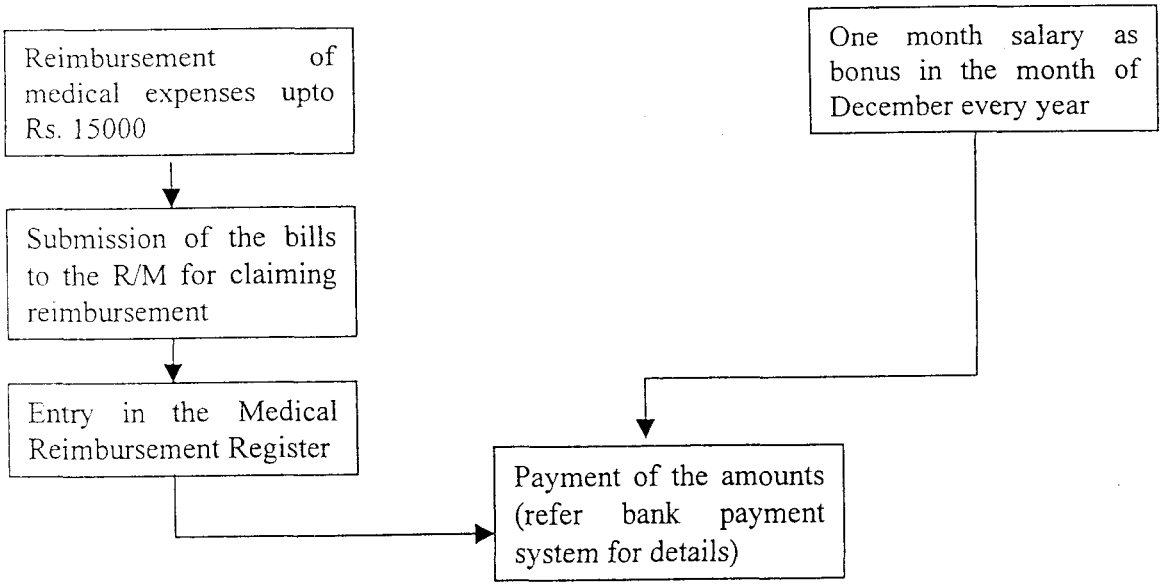
TRAVEL EXPENSES



SALARIES


International employee
Salaries of these employees are managed, controlled and accounted for by the HO. No records are maintained in India
Locally hired employee
Preparation of the salary cheques by the AS on the basis of the scales mentioned in the appointment letters / the increment approvals. (on basis of the time sheets)
Payment of the salaries
Deduction of the TDS and the PF components from salary
Deposit of the TDS with RBI
Deposit the PF contributions with PF commissioner

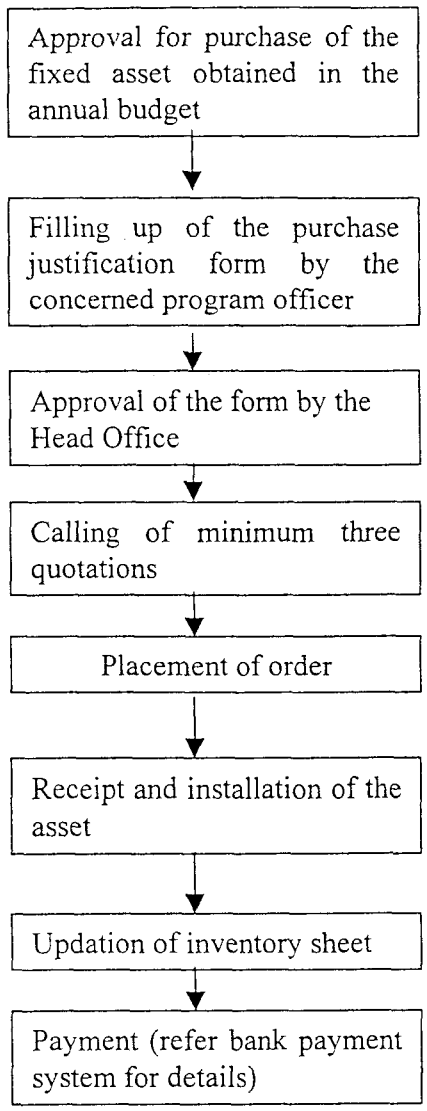
BENEFITS TO EMPLOYEES



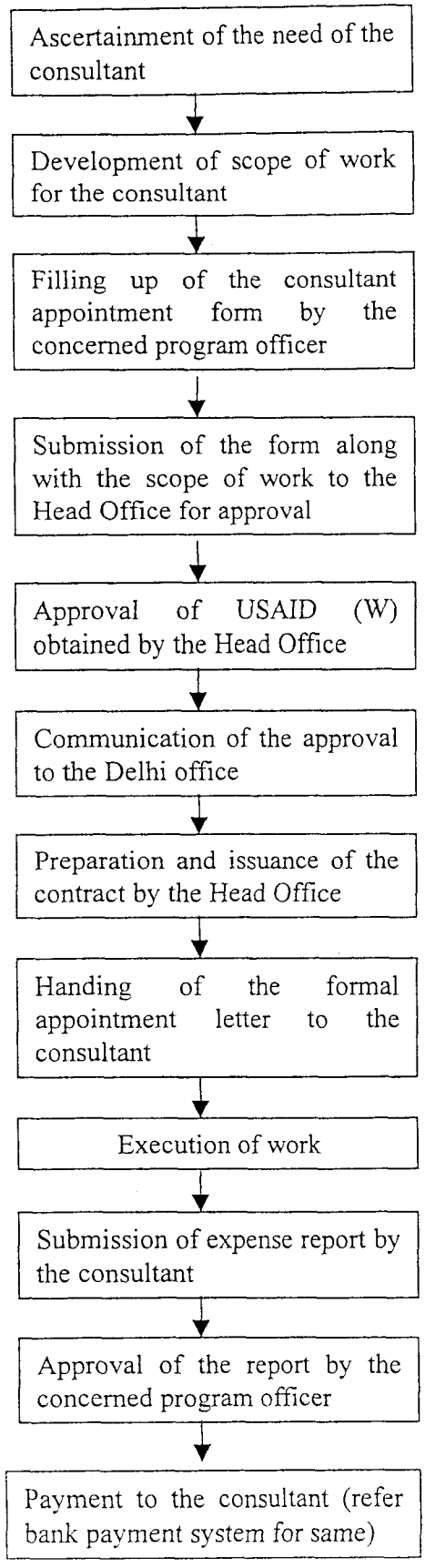
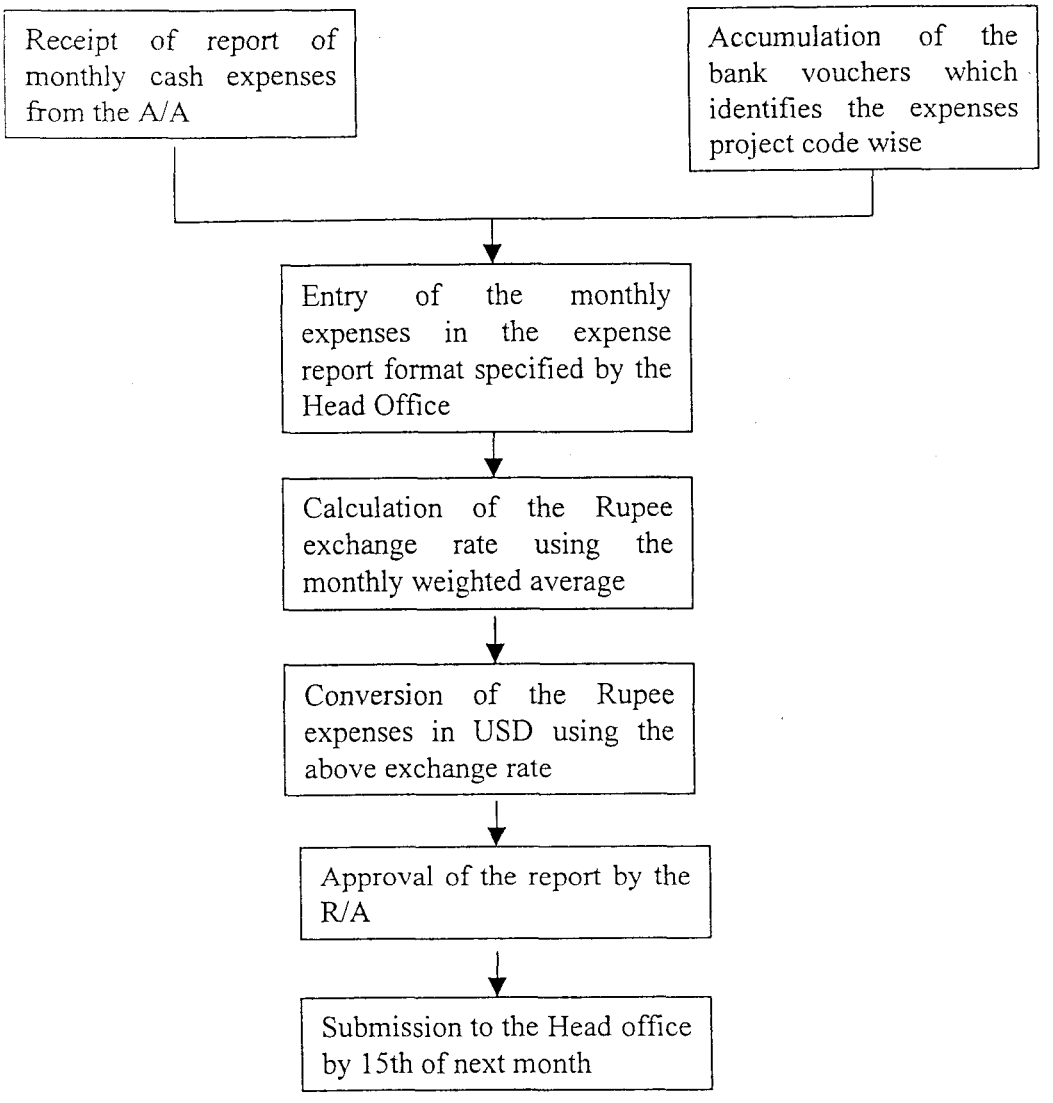
APPENDIX - IV

Schedule - 6

PROCUREMENT OF FIXED ASSETS (NXP PROPERTY)



APPOINTMENT AND PAYMENT OF CONSULTANTS



EXPENSE REPORT PREPARATION