



**Regional Micro-Finance Program Review:
Asociacion Costa Rica Grameen
Summary of Observations and Recommendations
Guacimo, Costa Rica
January 2007**

**Project Review: Costa Rica
Summary of Observations and Recommendations**

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Background Information

In order to ensure proper fiduciary oversight of Whole Planet Foundation (WPF) grants and identify and solve any potential problems, the Foundation has developed a process with desired objectives and outcomes for field-based reviews. This January the first reviews of field practices in Costa Rica and Guatemala were conducted. WPF's Monitoring and Financial Manager, Evan Lambert observed the financial books and discussed operations with the Grameen Management Team which yielded a series of recommendations and follow up items. Monitoring and evaluation of the projects' progress will continue to ensure that the reviews are understood and that the various recommendations will be implemented accordingly.

Review Methodology and Procedures

The foundation has an on-going responsibility to maintain *expenditure responsibility*, which is the practice of ensuring that the funds are spent for their intended charitable purpose, and not for inappropriate private benefit.

As part of the Foundation's expenditure responsibility, all reasonable efforts have been exerted to establish adequate procedures:

1. To see that the grant is spent solely for the intended purpose,
2. To obtain full and complete reports from the grantee on how the funds are spent, and
3. To provide full and detailed reports of expenditures to the WPF Management Team as well as to the Board of Directors.

A risk based approach is utilized to guide the analysis of each program. A risk rating matrix has been developed that will be used to trigger thresholds established in the over-arching macro analysis. The risk rating applied to a program will drive the audit scope and sample sizes used for testing as well as impact other areas of the audit. Some of the factors influencing the "risk" based calculation include:

- Materiality or dollar amounts being provided to the program
- System of controls in place at the country site
- Delivery of reports in a timely manner
- Compliance of required reporting standards as put forth by the Foundation
- Organizational competence in accounting and record keeping
- Unusual circumstances that would be grounds for concern

The following list of procedures, Table 1.0 is the basis of the survey which was used in order to verify the *expenditure responsibility* of the Foundation in remote locations. At a high level, the goals are to:

1. Verify accuracy and completeness of financial information
2. Review progress reports for completeness and accuracy
3. Review bank lending operations

Table 1.0: Procedures

ID	Procedures
1. Pre Work	
1a	Perform high level risk assessment, identify any higher risk areas warranting review
1b	Determine amount of funds sent to program site since inception
1c	Meet with WPF personnel to determine desired format for reporting as well as desired frequency of reports

1d	Obtain the latest consolidated financial statements for the project office
1e	Review CR Project Document - Identify other areas to incorporate into audit.
2. General Info	
2a	Obtain the program organizational chart; meet with the Program Director and local staff to discuss the operations and program lay of the land.
2b	Obtain the most recent program financial statements
2c	Evaluate the adequacy of financial data presented: How accurate is it? How user friendly? Presentation? Timely?
2d	Obtain most recent audit reports performed, attempt to have translated or understand the work performed, results, findings so effort is not duplicated. Discuss findings with branch personnel
2e	Identify the percentage of funds sent to country actually being disbursed as loans
3. Financial Statements	
3a	Obtain branch bank financial statements and review for accuracy and agreement with General Ledger
3b	Agree amount of Funds Received with WPF Funds Sent
3c	Obtain and review the supporting documentation for the financial statement line items:
3d	Personnel salaries, overhead,
3e	Review for any unusually large items / expenditures, and verify adequate existence of supporting documentation
3f	Identify any areas of higher risk and subjectivity and perform appropriate procedures to verify legitimacy
3g	Judgmentally select a sample of expenses, and verify appropriate support (invoices, receipts, signatures, etc.)
3h	Interview branch personnel and verify competency
3i	Identify any expenditures that may have been used to fund illegal activities
3j	Obtain and review budgets for 2007 and 2008 and review for reasonableness
4. Reporting	
4a	Verify existence of quarterly reports

Observations and Recommendations

Below is a summary list of observations and recommendations, Table 2.0 generated as a result of the Regional Micro-Finance Program Review in Guacimo, Costa Rica, location of the *Asociacion Costa Rica Grameen (ACRG)*.

In general, it appears that project financial statements are accurate and sound accounting practices are in place and operating effectively. The review did result in the several observations and recommendations, which are recorded below and have been discussed with project management.

Table 2.0: Observations and Recommendations

# Rank	Observation	Recommendation	Grameen Mgt. Response	WPF Action Item	
I. Financial Statements					
1	H	There is a discrepancy of \$21,336.45 between total funds sent to Costa Rica by the Foundation, and funds received by ACRG. The discrepancy is stems from a donation sent in 2005 directly to Grameen Trust for travel expenses.	Research and investigation should be performed to determine the reason for the discrepancy. There is likely a reasonable explanation for the discrepancy.	Project management is in agreement with the recommendation, and will contact Grameen Trust to determine actual expenditures made.	WPF staff will assist program management to appropriately account for the difference. A retroactive journal entry will most likely need to be made, or WPF should record the transaction as donation to GT. Estimated date of completion 6/15/07.
2	M	A formal Balance Sheet or Income Statement has not been prepared for the year ended 12/31/06. However, a "monthly affairs" statement dated 12/22/06 has been produced and shows that total debits equal total credits and the books balance. All expenditures appear to be tracked as well in appropriate accounts.	Formal Balance Sheet and Income Statement dated 12/31/06 should be produced in accordance with Costa Rican law. I recommend that these financial statements be produced electronically and signed by ACRG management. In addition, standard templates should be developed for financial reporting of all project sites.	Project management has prepared consolidated Financial Statements in accordance with Costa Rican Law as of 2/28/07 and 9/30/06 with the assistance of FPMG, CPA firm.	WPF will assist in the development of standard reporting templates for financial statements and assisting program management in their implementation. Done as of 6/1/07.
3	L	A consolidated income statement combining project office and branch banks is not produced. Currently, financials are maintained independently for project and branch offices.	A consolidated income statement should be produced to show results of operations for the project office as well as branch banks.	Done. Project management has prepared consolidated Financial Statements in accordance with Costa Rican Law.	None.

II. Accounting Processes and periodic reporting					
4	M	While monthly "at a glance" reports are being produced, periodic financial reports are not being sent to WPF leadership on a consistent basis.	WPF and ACRG should agree on format and frequency of financial progress reports and information contained therein.	Project management is in agreement with the recommendation. On a monthly basis ACRG will send consolidated income statement and balance sheet to the WPF.	WPF staff will assist in the creation of reporting templates and implementation of periodic reporting processes. Done as of 6/1/07.
5	M	All accounting is currently maintained manually, including general ledgers and subsidiary ledgers.	Computerized accounting software should be utilized to facilitate the accounting process. Grameen in Bangladesh has software in place that can be leveraged which branch management is familiar with.	Project management is in agreement with the recommendation. Management will investigate the feasibility of sharing the cost of implementation with the Guatemala project to reduce costs.	None.
6	L	Bank reconciliations are currently not part of normal accounting processes.	Bank reconciliations should be performed monthly for all bank accounts, reconciling book value to bank balance for the cash account.	Project management is in agreement with the recommendation. Bank reconciliations will be performed on a monthly basis.	WPF will work program management in the usage of bank reconciliations. Example reconciliation templates have been provided as of 5/23/07. None.
7	L	Certain expenditures are being capitalized as fixed assets that are more accurately categorized as normal operating expenses (ex: office supplies)	Only items that meet the true definition of capital assets should be included in the fixed assets account.	Project management is in agreement with the recommendation.	None.
8	L	ACRG has completed an internal audit of the project in accordance with Grameen Trust requirements. However the results are currently in Bengali only and have not been translated for the use of the WPF.	The internal audit results should be translated and shared with the WPF.	Project management is in agreement with the recommendation. An executive summary statement will be prepared in English and provided to WPF for the internal audit performed. Future internal	None.

				audit reports will include a summary statement in English.	
9	L	An external audit of ACRG has not yet been completed for the calendar year ended 12/31/06.	External audits of organizations such as ACRG are not required per conversation with FPMG, CPA firm.	FPMG, CPA firm, has assisted in the preparation of Financial Statements in accordance with Costa Rican law. An external audit is not required per conversation with FPMG; however management will consider having one performed in the future.	None.
10	L	There is a \$1,339.57 balance in an account titled "advance to Mr. Wanta." This money was used for travel expense for Bangladeshi project employee.	This account should be reclassified as a travel expense, with appropriate supporting documentation.	Done.	None.
11	L	Depreciation accounts (depreciation expense and accumulated depreciation) are presented as both an asset and a liability.	Depreciation should be listed as an expense, with accumulated depreciation shown as a contra-asset.	Project management is in agreement with the recommendation, once approval has been obtained through Grameen Trust. Accumulated depreciation will be shown on project balance sheets.	Estimated date of completion 6/15/07.

III. Other					
12	H	Transition of Project management from Bangladeshi's to Costa Ricans has not yet begun.	While the project is still very young, it is important to consider the transition of project management and begin the process ASAP. I recommend developing a timeline for transition and putting a plan in place.	Project management is conscious of the need to transition the project to CR nationals. Currently, there are 3 field assistants who are potential management candidates who are completing their University education. Additionally, management is hiring a Costa Rican Accountant.	None.
13	H	Program management has encountered difficulties with local staff in handling labor disputes.	Labor dispute should be resolved and procedures established for employees in accordance with Costa Rican law. Specifically recommend the following: <ul style="list-style-type: none"> - Forms created for citations - New job descriptions - New employment contracts created and signed 	Project management is in agreement with the recommendation. All recommended action items have been completed.	The program attorney in Costa Rica is assisting in this area. None.

H = High Priority, M = Medium Priority, L = Low Priority