Institute for Development and Social Initiatives “Viitorul”

Management letter for 6-months from 1 October 2004 to 31 March 2005
Contents

1 Introduction 1
2 Background of the project 2
3 Observations and findings 3
1 Introduction

We have audited the financial schedules of the Project of the Institute for Development and Social Initiatives "Viitorul" (further "the Project") for the 6-month period from 1 October 2004 to 31 March 2005. During our audit we have assessed the internal controls within the Project, to the extent necessary for our audit and performed tests of transactions on a sample basis.

We report our observations, which are meant to help improve certain aspects of internal control and/or other areas of Project's activity.

It should be appreciated that our audit procedures are designed primarily to enable us to form an opinion on the financial schedules and therefore may not bring to light all weaknesses in system and procedures that may exist.
3 Observations and findings

Financial operations, controls and reporting

The Project performed its activities and maintained its records in accordance with the requirements of the Grant Agreement signed between Institute for Development and Social Initiatives “Viitorul” and the Foundation on 29 September 2004. The Project’s budget provided by the Foundation was approved along with signing the Grant Agreement in amount of USD 120,376. Actually the Project received USD 117,376.

The Project prepares activities reports and financial reports. Activities reports were prepared and authorised by the Project Director, financial reports are prepared by the Financial Officer and authorised by the Project Director. Financial reports consist of two parts: part 1 – expenditures and part 2 – revenues.

IDIS “Viitorul” had operated a separate bank account to implement the Project of the Eurasia Foundation, as stipulated in the Grant agreement.

Disbursements were made by the Project in local currency and are translated into USD using approved rate in effect at the time the local currency was obtained or expended from Grantee’s own sources that is in compliance with agreement terms.

During our audit we have not found any inconsistencies in activities of the Project with local legislation.

According to the Attachment 4 to the Grant agreement, a timesheet should be maintained for each employee whose salary is charged to the grant. The Project has prepared timesheets for the Project employees for October, November and December 2004, then, starting from January 2005 activities reports was prepared instead of timesheets.
Background of the Project

The Project was designed to assist a larger and motivated participation of citizens of the Republic of Moldova in the upcoming general elections. It targeted to impact on the ‘absentee’ group of poorly educated or inactive voters. This was meant to be accomplished by combining elaboration and dissemination of civic education packages (consisting of video and radio spots, educational posters and TV shows, as motivational incentives towards an increased civic engagement).

The Project was accomplished within the framework of cooperation initiated by IDIS "Viitorul" as a Member of the Coalition 2005. Thus, the Project implementation has benefited from all the advantages as well the weaknesses of the existing network of civil organisations that joined the Coalition.

The Grant agreement signed between Institute for Development and Social Initiatives “Viitorul” and The Eurasia Foundation (further “the Foundation”) on 29 September 2004 stipulates the grant amount of USD 120,376 for financing the Project’s activities.
Procurement procedure

In accordance with the Grant Agreement between the Foundation and the Project, the Project should hold a bidding procedure and obtain a written approval from the Foundation for service and goods procurements exceeding USD 500. The Project should maintain documentation reflecting at least 3 bids and a justification for the preferred vendor, which is to be submitted to the Foundation with request for approval.

The Project has signed contracts for amounts, which qualify for bidding procedures at the moment of signing, with Univers Studio SRL, Grey SRL, Euro-TV Chisinau and Euronova Media Grup, for which no bidding procedure were performed. According to the Project Management, the procedures were not followed due to the fact that:

- Univers Studio SRL was the only provider of the services needed (production of theatre materials)

- Euro-TV Chisinau and Euronova Media Grup were chosen for providing broadcast of TV plays because the National TV refused and these two companies remain the best vendors in Chisinau and on national markets.

- Grey SRL offered good quality at acceptable price and was the only provider of the services needed (consulting services on broadcasting)

The Project has signed contracts for amounts, which were subject to prior written approval, without receiving one. There were no written approval for the following companies: MIA ONG, Univers Studio SRL, OWH TV Studio, Euro-TV Chisinau, Euronova Media Grup, Continental Group SRL, Grey SRL and the following famous national singers: Grigorieva Silvia and Tarna Nicolae. According to the Project management, they had no sufficient time to claim written approval and verbal pre-approvals for these vendors were obtained before signing the contracts.
Presentation of reports

According to the terms of Grant report expenditure of grant funds should adhere to specific line items in the approved budget, presented in Attachments 2A and 2B to the agreement. The Project may over-expand budgeted line items in Attachment 2A without prior Foundation approval by USD 100 or 10%, whichever is greater, provided that the over-expenditures shall not exceed the total grant amount. The Project has used and reported the funds received as follows:

<table>
<thead>
<tr>
<th>Budget line</th>
<th>Approved amount</th>
<th>Reported expenditures</th>
<th>Actual expenditures</th>
<th>Difference</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td>3,432.00</td>
<td>3,432.02</td>
<td>3,432.02</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Office costs</td>
<td>3,500.00</td>
<td>3,090.87</td>
<td>3,090.87</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Research</td>
<td>6,000.00</td>
<td>5,927.06</td>
<td>5,837.06</td>
<td>(90)</td>
<td>(1)</td>
</tr>
<tr>
<td>Production &amp; Broadcast of Social TV &amp; Radio Spots</td>
<td>27,570.00</td>
<td>27,576.74</td>
<td>27,666.74</td>
<td>90</td>
<td>(1)</td>
</tr>
<tr>
<td>Product &amp; Broadcast of Political Satire TV Show</td>
<td>44,054.00</td>
<td>33,951.32</td>
<td>33,951.32</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Educational packages</td>
<td>32,820.00</td>
<td>27,965.55</td>
<td>27,965.55</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Audit</td>
<td>3,000.00</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>120,376.00</strong></td>
<td><strong>101,943.56</strong></td>
<td><strong>101,943.56</strong></td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

(1) The Project included in the budget line “Research” the amount of USD 90 in the category “workshop/travel expenses”, that actually presented the amount paid for monitoring of social spots broadcast, which should be included in the budget line “Production & Broadcast of Social TV & Radio Spots”.

The Project staff and experts had performed their work on the basis of patents. In this case there was no need to pay social fund and pension fund charges, as all corresponding charges are included in patent cost. Thus, the fringe benefits provided in the approved budget were included in total amount paid to the experts, including the Project staff, as remuneration.

During the 6-months’ period ended 31 March 2005 an amount of USD 6,171 that relates to purchase of flyers was included in the budget line titled “Printing costs: 4 posters ($0.80*5000 copies*4)”. This type of expenditures was not provided for by the approved budget. According to the Project management, publication of flyers was done in conformity with the emerging needs of the Coalition work on the ground, and they have received verbal approval to include this expense in the budget.
Independent Auditors’ Report

To the Project management

We have audited the accompanying Financial Report of the Institute for Development and Social Initiatives “Viitorul” Project (further “the Project”) under the Eurasia Foundation grant #K04-0302, which includes the following schedules for the 6-month period from 1 October 2004 to 31 March 2005:

- PART 1: EXPENDITURES (only the column titled “Total” was subject to audit);
- PART 2: REVENUES (only the column titled “Overall Total USD Equivalent” was subject to audit);
- PART 3: CASH ON HAND.

This Financial Report is the responsibility of the Project’s management. Our responsibility is to express an opinion on the accompanying Financial Report based on our audit.

We have conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Report. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Report presentation. We believe that our audit provides a reasonable basis for our opinion.

The Project’s policy is to prepare the accompanying Financial Report on the cash receipt and disbursement basis. On this basis sources of funds are recognized when received rather than when earned, and uses are recognized when paid rather than when incurred. The accompanying Financial Report was prepared to present the funds received and the expenditures incurred by the Project and is not intended to be a complete presentation of the Project’s operations.

In our opinion, the accompanying Financial Report of the Institute for Development and Social Initiatives “Viitorul” Project for the 6-month period from 1 October 2004 to 31 March 2005, which includes PART 1: EXPENDITURES (only the column titled “Total” was subject to audit), PART 2: REVENUES (only the column titled “Overall Total USD Equivalent” was subject to audit) and PART 3: CASH ON HAND, gives a true and fair view of funds received and disbursements made in accordance with the cash receipts and disbursements basis as described in the preceding paragraph.

KPMG Moldova SRL
26 May 2005
Chisinau, Republic of Moldova

Ref. 05040

© 2004 KPMG Moldova SRL, the Moldovan member firm of KPMG International, a Swiss cooperative. All rights reserved.
IDNO: 100 260 004 63 71;
### PART I: EXPENDITURES

<table>
<thead>
<tr>
<th>Item</th>
<th>Variance</th>
<th>Total</th>
<th>Reporting Period 1</th>
<th>Reporting Period 2</th>
<th>Approved</th>
<th>Approved budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Expenditures**

**Approved budget**

**Total Expenses**

**Audit**

**Educational PACKages**

**Political Social TV Shows**

**ProductionROADCAST of TV/Radio Shows**

**ProductionROADCAST of Research**

**Office costs**

**Personal**

**Other**

**Grand Total: $57,700.00**

**Grand Period: 10/10/04 to 05/31/05**

**Phone number: 373-222-21-09-09**

**Financial Director: Minueta Lee**

**Financial Officer: Benjam Linman**

**Signature:**

---

**Attachment 2A - Financial Report**
### PART 2: REVENUES

<table>
<thead>
<tr>
<th>Period</th>
<th>USD Equivalent</th>
<th>USD Equivalent</th>
<th>Exchange Rate</th>
<th>Local Currency</th>
<th>Revenue Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>117,736.00</td>
<td>66,000.00</td>
<td>31,376.00</td>
<td>5101.94</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td>October</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td>November</td>
<td>117,736.00</td>
<td>66,000.00</td>
<td>31,376.00</td>
<td>5101.94</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>117,736.00</td>
<td>66,000.00</td>
<td>31,376.00</td>
<td>5101.94</td>
<td></td>
</tr>
</tbody>
</table>

**Total Revenues**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>64.0103.86</td>
<td>12.4592</td>
</tr>
<tr>
<td>64.0103.86</td>
<td>12.4592</td>
</tr>
<tr>
<td>64.0103.86</td>
<td>12.4592</td>
</tr>
</tbody>
</table>

**Total Revenues (from Part 2):** 64.0103.86

**Total Revenues (from Part 1):** 5101.94

**Total Revenues:** 64.0103.86

**Cash on Hand:** 515,492.44

**Attachment 2B - Financial Report (continued)**