
**POLICY REVIEW AND MONITORING RESULTS WITH THE VIEW TO STRENGTHENING EFFECTIVE
APPROXIMATION OF THE REPUBLIC OF MOLDOVA TO THE EUROPEAN DEMOCRATIC STANDARDS**

INSTITUTE FOR DEVELOPMENT AND SOCIAL INITIATIVES "VIITORUL"

FUNDS GRANTED BY THE EAST EUROPEAN FOUNDATION

GRANT AGREEMENT NO. 490 DATED 1 APRIL 2016

MANAGEMENT LETTER

FOR THE PERIOD 1 APRIL 2016 - 16 DECEMBER 2016

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Ms Aliona Lazarev
Chief accountant
AO IDIS „Viitorul”
Chisinau, Republic of Moldova

17 January 2017

Dear Ms Lazarev,

We have completed our audit of the financial statements of the Project “Policy review and monitoring results with the view to strengthening effective approximation of the Republic of Moldova to the European democratic standards”, for the period 1 April 2016 - 16 December 2016. The purpose of this letter is to bring certain matters to your attention which we noted during our audit work.

Our aim in preparing this report is to use our knowledge about the Project, accumulated during the audit to make helpful comments and suggestions to be considered by you. However, it should be taken into account that our examination is primarily intended to allow us to express an opinion on the Project financial statements and is not a specific examination of the internal control system. For this reason, it does not provide a basis to detect any deficiencies or material control irregularities that may exist. In addition, this report should not be regarded as an attestation opinion and not diminish or eliminate your responsibility regarding the establishment of a sustainable system of internal control. Our recommendations are not mandatory and are not valid for certification purposes.

Please note that it is your responsibility to take any action you consider necessary to address any matters notified to you and we shall not be held responsible if loss or misstatement occurs as a result of failure to take appropriate actions.

This report is intended solely for the information and use of management of the Association, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Finally, on this occasion, we would like to express our thanks to management as well as to the Association personnel for their co-operation and assistance during the audit.

Yours faithfully,


Anatolie Bernaz
Partner



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Deficiencies related to financial accounting

1. Failure to comply with contractual requirements agreed with the donor

Degree of importance - High

Observation:

According to grant agreement signed with the Est European Foundation, the grant funds can be used only according to the budget approved and attached to the grant agreement. At the same time there are some unacceptable expenses:

- (a) expenses that exceed the equivalent amount of 100 USA dollars or 10% within the budget articles, without a prior agreement from the Foundation;
- (b) contractual services, with an amount of 500 USA dollars or more, without requesting the prior Foundation's formal approval;
- (c) in case of Employees of the organization, they can't be paid for contractual services, and all payments for their services should be included in budgeted category "Salaries";
- (d) food expenses.

As a result of the audit procedures performed in order to analyze the adequate reporting of the expense articles within the budgeted lines and compliance of the amounts allocated for each budget line, we have noticed that in case of the sub-recipient Promo-Lex:

- I. there were relocated amounts that exceed 100 USD or 10 % within the budget lines "Project accountant" and "Layout and writing instructions";
- II. there have been contracted services of the Law Bureau Alexandru Postica, Irina Corobcenco and Law Bureau Vadim Vieru, whose value exceed 500 USD and without requesting the prior Foundation's formal approval;
- III. there have been provided contractual services by the employee Bondarciuc Carolina, and these expenses were reflected within the budget line „Layout and writing instructions”;
- IV. within the budget line "Coffee breaks" there have been included expenses for sugar, sweets, tea, coffee, water, napkins and coffee filters, that are the part of food expenses category;

At the same time we have noticed that in case of the sub-recipient CALM, the amount included in the budget line „Reports presentation" was entirely used for covering food expenses.

Risk:

There may appear objections and potential penalties from the donors with respect to the failure of compliance to the approved budget as well as to the contractual clauses.

Recommendation:

In order to exclude potential objections from the donors, we recommend the Association to comply to the contractual clauses and/or to obtain a prior agreement from the donor.

In the case of alimentary products consumed within the "Coffee breaks", we understand that they might be necessary, but in order to exclude any possible future discrepancies between the grant agreement and the approved budget, we recommend the exact specification of the prohibited expenses.

Management response:

As a result of the observations made by the audit company, the Association "Promo-Lex" presents the following explanations:

- I. Regarding the fact that there were relocated amounts that exceed 100 USD or 10 % within the budget lines "Project accountant", we communicate that:

At the moment the Project was elaborated, Promo-Lex has calculated the salaries and honoraria of the project members in gross amounts, which included all the related taxes. Later, at the stage the project was submitted, there have been made some changes to the budget by IDIS Viitorul, and the amounts have been divided in net salaries + taxes (employer's contributions 27.5%). This was an unintentional omission from the project partners.

This change affected the budget sub-line "Project accountant" because the accounting services are provided by the legal entity "Zotea Iurie", and don't require the payment of taxes and contributions. Thus, at the planning stage, the accounting services have been budgeted at the current amount of 14.03 USD (gross amount per hour) for the involvement of 5% x 8 months (approx. 943 USD). Subsequently, when the budget was adjusted, from the initial budgeted amount, there have been deducted and separately calculated the employer's taxes - 27.5%, which is not relevant for this job.

In the process of project implementation, the Project Accountant has been strictly remunerated according to the gross amount per hour approved and according to the involvement rate indicated in the budget - 5%. Thus, de facto, the sub-line „Project accountant" hasn't increased, but the amounts from the sub line "Project accountant" and "Employer's contributions" have cumulated.

- II. Regarding the fact that there have been contracted services of the Law Bureau Alexandru Postica, Irina Corobcenco and Law Bureau Vadim Vieru, whose value exceed 500 USD we communicate that:

All the experts involved within the project, are actually experts within the Association which are contracted either by an individual employment agreement, service providing agreement or

Legal assistance agreement (lawyers). At the moment the Project was elaborated, Promo-Lex resented to IDIS Viitorul the list of experts that would be involved in drawing up documents and analysis of public politics. It wasn't foreseen the organization of any contests of experts selection, because they have been already predetermined. The fields of intervention of Promo-LEX within the project have been established based on the experts' expertise available to the Association. Thus, considering the abovementioned points, Promo-Lex did not require the EEF approval for the experts' jobs.

In this regard, we communicate that the lawyer Alexandru Postica activates within the Association from 2005, Irina Corobcenco- from 2014 and the lawyer Vadim Vieru- from 2010.

III. Regarding the fact that:

- a) there have been provided contractual services by the employee Bondarciuc Carolina, and they were reflected within the budget line „Layout and writing instructions,, , and
- b) there were relocated amounts that exceed 100 USD or 10 % within the budget lines “Project accountant” and “Layout and writing instructions”;

Carolina Bondarciuc is employed as a Communications Officer within Promo-Lex and has been involved in this project, being a member of the project implementation team. In this regard, Promo-Lex signed with Carolina Bondarciuc an Additional Agreement for the project (AA Nr. IDIS 2016-490-01/3 din 01.04.2016).

Within the mentioned project, it has been planned the layout and elaboration of a publication (Instruction). In this regard, an amount of 50 USD has been budgeted. However, Promo-Lex has elaborated a total of 6 publications within the project, which were made public and, as a result-needed layout.

The budgeted amount of 50 USD was insufficient. In this regard, it was decided that the layout services were provided by Carolina Bondarciuc, who had the technical skills to achieve this service. Thus, for that specific service, Promo-Lex signed with Carolina Bondarciuc an Additional Agreement, because the job description for the position of Communications Officer didn't include the layout services. This is a practice rarely used but accepted within Promo-Lex, implemented in other projects as well. Usually, Promo-Lex contracts external layout services. But, given the budget and considering the limited time for execution, Promo-Lex decided that the layout services had to be provided by Carolina Bondarciuc, for a fee much lower than the market price for such services. Overall, for the 6 publications, Promo-Lex paid to Carolina Bondarciuc a gross amount of 150 USD which included all employee and employer taxes.

At the same time, we are aware of the fact that, increasing the fee for this service from 50 to 150 USD resulted in an adjustment of the budget which exceeded the limit of 10% and, as a result a prior approval from EEF was needed. It should be mentioned that, this service was provided urgently in the last days of the project implementation. Promo-LEX request for extension of the implementation period was rejected by IDIS Viitorul for objective reasons. Due to the above, the request for budget modification was not formalized according to the grant clauses. Thus, we recognize the breach of section 2.2 of Sub-Grant Contract no. 490/01 and we agree to comply with the FEE decision in this sense.

- IV. Regarding the fact that within the budget line "Coffee breaks" there have been included expenses for sugar, sweets, tea, coffee, water, napkins and coffee filters - food services, we communicate the following:

According to the approved budget, a coffee break was expected for each event. In order to avoid additional costs and follow the budget limits, Promo-Lex didn't use the catering services for coffee breaks but, bought food on its own, avoiding service costs.

In the classical concept of Coffee Breaks the following food is included: tea, coffee, sugar, cream, biscuits, candies, etc., and disposable tableware. The same resources are used by the catering services to organize coffee breaks. Thus, we disagree with this audit finding. Also, this kind of expenses are generally accepted by donors, including EEF.

- V. Regarding the fact that in the case of CALM sub-recipient, the amount provided for the budget line „Reports presentation" has been entirely used for covering food expenses.

According to the budget, within the budget line "Reports presentation" was forecasted the organization of 3 events, a fact which assumes food services and/or lease of the space for the event organization.

During the project, 3 events have been organized from this budget line.

Expenses for these events were proved by invoices, events agenda and lists of participants.

These confirmative documents are a proof, that CALM Association didn't break nor the provided budget, neither the initial clauses of grant Agreement.

2. Lack of a clear methodology for allocation of the utilities and lease expenses

Degree of importance - **Medium**

Observations:

As a result of the audit procedures performed in order to analyze the administrative expenses, namely the lease expenses, we noticed that both IDIS Viitorul and its sub-recipients Promo-Lex and CALM don't have a clear methodology regarding allocation of the entity's lease, administrative and utilities expenses.

Risk:

Possible objections from the users of information regarding an accurate allocation of lease and utilities expenses within the ongoing projects.

Recommendation:

In order to exclude possible objections from the users of information and/or donors, regarding the accurate allocation of lease and utilities expenses, we recommend the Association to implement a clear methodology on allocation of utilities and lease expenses between the ongoing projects and its application in the Association activity.

Management response:

IDIS Viitorul will include in the organization's Handbook of Procedures a clause regarding the allocation of administrative expenses.

3. Errors in drawing up the Annexes to the individual labor agreements

Degree of importance - **Medium**

Observations:

As a result of the audit procedures performed in order to analyze the individual labor agreements of the employees involved in the project, we noticed that A.O. IDIS Viitorul has admitted some errors in drawing up the Annexes to the individual labor agreements. Therefore, there have been identified discrepancies on the way the Annexes were numbered and wrong indication of reference to the individual labor agreements (2 cases).

Risk:

In the case of possible litigations with the employees involved in the project, it would not be possible to provide proof that the Annexes are part of the individual labor agreements.

Recommendation:

In order to exclude this type of errors in the future, we recommend the Association to implement an increased internal control in order to ensure the accuracy of the individual labor agreements and their Annexes.

Management response:

During the audit procedure performed, the Auditor has warned us about the errors found in the annexes regarding the project.

The responsible person made all the necessary changes, and the documents were signed and replaced.