



# USAID | SERBIA AND MONTENEGRO

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**Through:** Neda Banjanin, USAID/Serbia-Montenegro, Chief Accountant *MB*

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**Subject:** Pre-award survey of the Serbian Red Cross (SRC)

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## EXECUTIVE SUMMARY

SRC operational, procurement and financial management systems provide reasonable levels of control to manage USAID funds up to a maximum aggregated limit of \$1,000,000 at any given time, in relief and emergency assistance using a cost reimbursement method. However, this conclusion does not indicate that USAID has any current plans to fund the SRC at any time.

### I PURPOSE

USAID/Serbia-Montenegro mission management and the Regional Contracting Office in Budapest, Hungary, requested a pre-award survey of the SRC due to a potential need to issue grants to SRC for humanitarian and emergency assistance in case of natural or man-made disasters.

The Office of Financial Management conducted a pre-award survey of the SRC at its premises in Belgrade, Serbia, during August 2011. The purpose of the survey was to determine SRC's ability to manage USAID funds in accordance with USAID rules and regulations, as well as with applicable Serbian legislation and the organization's established policies and procedures. This survey did not constitute an audit.

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## II BACKGROUND ON THE ORGANIZATION

SRC is a humanitarian, non-governmental, non-profit organization, which achieves its humanitarian tasks as the assisting entity of the Serbian Government with factual independence. The Law on Red Cross (2005) defines the organization and its sources of funding. The Statute of the Red Cross of Serbia further defines the rules, rights and obligations of the organization. The organization has the Assembly, Executive Board and Supervisory Board. Organization seat is in Belgrade. The average number of employees in Belgrade as of the end of every month is 73 (as of 2009). SRC has a wide network of 186 red cross organizations across Serbia which are separate legal entities and were thus not subject to this review.

SRC is the only national society in the territory of the Republic of Serbia, recognized by the international movement of Red Cross, with full recognition of the continuity of Red Cross of Serbia since its establishment in 1876. Serbian Red Cross, according to the Law on social organizations, was registered as a social organization, with the Ministry of Interior. In accordance with Article 26 of the Law on Associations, the organization has applied for registration with the Serbian Business Registry Agency.

Majority of funding is received from the Budget of the Republic of Serbia and is thus auditable as regulated under the Serbian System Budget Law. These funds are the mandatory proceeds from the Serbian Lottery which are given for humanitarian purposes. The SRC is managing up to ten complex programs at a time. One of the major programs is with the Global Fund to fight AIDS, Tuberculosis and Malaria (GFATM), which has requested an appropriate level of management controls which were adopted by the organization. SRC is the Principal Recipient along with the Ministry of Health of the Republic of Serbia under supervision of UNOPS as the Local Fund Agent. As Principal Recipient, SRC is then administering the funds towards the local red cross organizations in Serbia (Sub Recipients). SRC is responsible for the program and legally accountable to the GF for all funds. The organization has to follow the Public Procurement Law and implement the relevant bylaws and procedures.

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## III METHODOLOGY AND TESTING

This engagement was limited in scope and was not performed in accordance with the generally accepted government auditing standards. Management's assertions regarding operations and internal controls are found to be reasonable. SRC's policies and procedures and applicable Serbian laws and regulations were examined. Evidence supporting procurements and underlying financial transactions relevant to USAID grant # 169-G-00-11-00003 was thoroughly reviewed and reasonable assurance was obtained that the financial and procurement records tested were free of material misstatements. The major procurements under USAID grant are documented and were performed in line with the Serbian Law on Public Procurement which includes invitation for bids, tender documentation and product specifications, selection committee, bid opening documentation and other necessary elements of a proper procurement process. This grant was an example of USAID using the local country systems. The organization has also adopted the required Rulebook on awarding of public procurements of small value, however, these were not utilized under USAID funding. SRC financial management, property management, travel, personnel, procurement, organizational structure and internal controls were reviewed and are found to be satisfactory. Travel procedures are regulated by the local regulations and the required Decision on reimbursement of expenses during official travel in country and abroad, which is in existence and implemented. The following key personnel based in Belgrade were interviewed:

1. Mr. Ljubomir Miladinovic, Head of International Relations Department;
2. Ms. Olivera Aleksic, Deputy Manager of Financial Department;
3. Mr. Djula Losenc, Disaster Management Coordinator;
4. Mr. Mirko Vasiljevic, Legal Department.

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## IV CONCLUSION

SRC operational, procurement and financial management systems provide reasonable levels of control to manage USAID funds up to a maximum aggregated limit of \$1,000,000 at any given time, using a cost reimbursement method. SRC is a mid-sized 'social' organization, and its current policies and procedures, levels of internal control, and segregation of duties are reasonable for an organization of its size. SRC does have the in-house expertise necessary to directly manage and oversee amounts of USAID funding up to \$ 1 Million. However, this conclusion does not indicate that USAID has any current plans to fund the SRC at any time.

## V EXTERNAL AUDIT

In accordance with Article 7 of the Law on accounting and audit (Official Bulletin of the Republic of Serbia, 46/06 and 111/09), SRC has been classified as a medium legal entity and, according to the paragraph 1, Article 37 of the Law, is obligated to have audited financial statements. SRC has received an unqualified audit opinion for the last two years (2009 and 2010) which was accepted as supporting document. The financial statements are prepared in accordance with the International Financial Reporting Standards, International Accounting Standards, and accounting regulation of the Republic of Serbia. Oversight of audit resolution is independent, through the Supervisory Board. SRC financial statements are not consolidated with those from the 186 local red cross organizations.

## VI BUDGETING, FINANCIAL ACCOUNTING AND REPORTING

Financial accounting is done through the data processing software and includes all important elements for analyses and reporting on business transactions. It is a COTS solution which was significantly adapted to the needs of the SRC, both by outsourcing and by inhouse IT capacity. This solution also covers materials handling, budgeting and reporting in addition to accounting

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and is installed in many of the 186 local organizations. SRC is able to distinguish both on budgetary and accounting level the complex structure of over 10 major programs for 186 sub-organizations. SRC is able to segregate project reporting and budgeting for any specific project and/or donor. There is currently around 65 projects (some are being closed, new ones opened) managed and since SRC financial system is tracking each separately per project code, there is an infinitive number of projects that can be tracked in this system. In accordance with the SRC Business and Financial procedures, the established internal control system and segregation of duties provides a clear flow of information and documentation, and thus prompt and proper recording of all business transactions in business and financial system of the SRC.

## VII RECOMMENDATIONS

- System for performance evaluation of employees does not exist and there is no structured incentive program based on it. Currently, the Secretary General of the SRC has the authority, based on the SRC Collective Agreement Article 26, and is reviewing performance based on first or second hand knowledge about work of employees in the Belgrade headquarters and making decisions of bonuses or pay cuts based on that. These decisions are documented in writing. This is not a transparent process and although the interviewees stipulated that there were never issues or disputes, developing of a structured approach would benefit the organization. However, addressing this recommendation is not considered a condition precedent to issuing any future grant.
- Job applications for new employees are checked on a case by case basis, if the hiring committee is in doubt about some elements of the application. The application does include a CV, copies of diplomas and certificates and other relevant supporting documents. Potentially, SRC could establish a more systematic background check to include the educational, work and salary history review for new employees. This is also not considered as a condition precedent to issuing any future grant.
- Cash is kept in a safe under lock and key by the responsible custodian. There is one centralized cashier for the SRC Belgrade and there are no sub-cashiers. Cash count is

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performed only annually under the auspices of the regular asset inventory. Although there is no legal requirement to perform surprise cash counts by someone other than custodian, who is legally accountable for cash, it is recommended that SRC consider implementing this business practice. Local red cross organizations throughout Serbia do have their own cashiers, however since these are separate legal entities, they are not under control of the SRC Belgrade.

- There is no cash limit for cash payments in the organization procedures. SRC advised that it is not required to set cash limits by law and that cash withdrawals are made based on needs (approved payments) only. Since most of the transactions are made through EFT, this does not represent a major concern. There is no action recommended in this case.

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