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Movimento De Ajuda Familiar De Ocara - MAFO

ChildFund Brazil Local Partner Internal Control Audits December 2023

For the 18-month period ended in October 2023



October 12 , 2024

MARIA APARECIDA DE QUEIROZ

Board Chairperson

MOVIMENTO DE AJUDA FAMILIAR DE OCARA – MAFO

Rua Jose Correia, 244, Centro, Ocara – Ceará.

Dear Mrs. Queiroz,

The Global Assurance Department of ChildFund International (“Global Assurance”) conducted an Internal Control Audit (“ICA”) of the operations of Movimento de Ajuda Familiar de Ocara (“MAFO”) a Local Partner (LP) of ChildFund Brazil.

Our desk review work was conducted during the period of December 04 to 08, 2023. We assessed current internal controls in place in the operation of the LP and its compliance with the Letter of Agreement (LOA) with ChildFund International for the 18 months period ending on October 31, 2023.

If operating as intended, controls provide reasonable, but not absolute, assurance that errors and irregularities will not occur. In performing most control procedures, errors can result from misunderstandings, mistakes, carelessness, or other personal factors. In addition, management can intentionally circumvent controls and collusion between two or more individuals involved in a process can override a well-designed and well-followed internal control system.

This report should be used as a management tool to help MAFO enhance its internal control environment and adhere to the performance standards in the LOA. It is intended solely for the information of MAFO, ChildFund International USA and its Audit Committee and should not be used by anyone other than those specified parties. The Organization’s external auditors and regulators may be provided with a copy of this report in fulfilling their respective responsibilities.

We would like to express our appreciation to the staff and management of MAFO and ChildFund Brazil’s team in the Country Office for their support and assistance during the review.

Global Assurance

Sincerely,

Distribution List:

Mauricio Cunha

Country Director, ChildFund Brazil

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Executive Summary

During the period from December 04 to 08, 2023, Global Assurance performed an internal control audit (ICA) on the operations of MAFO. The primary objective of the review was to evaluate key processes and significant controls for adequacy and effectiveness for the 18-month period from May 2022 ending on October 31, 2023.

The results of this review were discussed with the MAFO's Board, management, and operations team throughout the audit and at our exit meeting. They reviewed the final draft of this report before it was issued.

Background

The Movimento de Ajuda Familiar de Ocara ("MAFO") is a legal entity under private law, philanthropic, of an educational, cultural, assistance, health, studies and research, sports and other, non-profit nature, with an indefinite duration, with its headquarters and venue in Ocara, state of Ceara.

The commitment to the Human Rights Policy begins with the institution's Statute, which aims to work for the benefit of children and their families, with programs that promote or contribute to the integral advancement of its members. Promote free education, social assistance and health for children and their families, among others. Having a priority audience in the age group from 0 to 24 years old, among children, adolescents and young people, without discrimination based on color, race, sex, ethnicity and religion.

By the end of our work on December 8, 2023, MAFO had a total of 1,498 children registered and of this number, 1,174 children are sponsored, representing a 78% sponsorship rate.

The distribution of children across various ages is summarized below:

Life Stage	Girls	Boys	Total by LS
1	311	309	620
2	364	386	750
3	66	62	128
Total by Gender	741	757	1498

Audit Objective and Scope

The purpose of this review was to ensure that the LP's internal controls are properly designed and functioning to minimize the risk of loss, and that the LP complies with regulations, as well as ChildFund's Letter of Agreement (LOA).

Because of the concept of selective testing of data and the inherent limitation of internal audit work, this review cannot discover all matters of significance, including fraud. Local Partner ("LP") management, not Global Assurance ("GA"), is responsible for preventing fraud from happening within their operations. GA can provide recommendations for improvement of the internal control environment, which can assist LP management in reducing the opportunity for fraud to occur without detection.

Global Assurance developed an audit program that covers the significant provisions and performance standards/criteria in the LOA and captures good internal control practices. It includes 37 areas of review distributed in the following sections:

- A. General Letter of Agreement Commitments
- B. Financial Management Standards & Performance Criteria
- C. Sponsorship Management Standards & Performance Criteria
- D. Program Management Standards & Performance Criteria
- E. Governance and Other Risk Areas

Audit results are scored based on the level of risk of each question and the testing results. Each question is assigned a weight of high and moderate with corresponding scores of 3 and 2. If no exceptions are noted on the test procedure, it earns a “Pass” and is given a score of 3 or 2 depending on the weight. If an exception or audit finding is noted the question is given a “fail” and earns a score of zero. No score is given to an item which is “not applicable”, and the total potential score is adjusted accordingly. Considering the items which were not applicable for the PAC review, their total potential score is reduced to **93** total score.

The “Opportunities for Improvement and Management Action Plans” section of this report includes findings and recommendations for all “failed” items, categorized according to their level of risk. All findings require specific management action plans, and their timely completion will be monitored. Global Assurance will also follow-up on them during the next ICA.

Review Results

This report only includes the more significant findings discussed during this review. These issues require specific management action plans, and their timely completion will be monitored. Lower risk findings were provided to LP management in the Exit Letter and are not included in this report.

The Internal Controls Audit performed between December 04 and 08, 2023, resulted in a “**Needs Improvement**” classification and identified seven (6) High Risk and two (3) Moderate Risk missions that the LP management must carry out. Important areas of improvement in relation to the lack of fulfillment of LP responsibilities agreed in the Letter of Agreement, resulting in deficiencies with fixed asset controls, inadequate management of records and children's files lacking mandatory documentation, as well as purchased items not delivered in their entirety for their beneficiaries and lack of stock control for NSP. The absence of important Policies and Procedures such as Code of Ethics and Information/IT Security Policy was also identified.

The following table shows the summary of audit findings noted during this review:

OPPORTUNITIES FOR IMPROVEMENT	
#	Description of Issue
<i>General Letter of Agreement Commitments</i>	
1	Documents are kept indefinitely - Dead File. <i>High risk</i>
2	Lack of Code of Business Conduct and Ethics. <i>High risk</i>
<i>Financial Management Standards & Performance Criteria</i>	
3	Weaknesses in the fixed asset report and lack of physical inventory. <i>Moderate risk</i>
<i>Sponsorship Management Standards & Performance Criteria</i>	
4	Data from children with incorrect records on the Master List. <i>Moderate risk</i>
5	Child Folder with Child Status Slip Outdated. <i>High risk</i>
6	DFC payments transferred to third-party bank accounts. <i>High risk</i>
<i>Program Management Standards & Performance Criteria</i>	
7	Purchase of Pedagogical kits were not delivered in full to beneficiaries. <i>High risk</i>
<i>Governance And Other Risk Areas</i>	
8	Lack of Stock Control for Poultry NSP. <i>High risk</i>
9	Lack of Information Security/Information Technology Policy. <i>Moderate risk</i>

In addition, the following table shows the available and actual score the LP received and the resulting rating for that score:

Level of Risk	Total Possible Questions	Total # Passed	Total # Failed	Total Possible Score	Actual Score	Compliance Ratio
High Risk	21	15	6	63	45	71%
Medium Risk	15	22	3	30	24	80%
Total	36	27	9	93	69	74%

The obtained ratio of standards compliance **74%** formed by those passed items reflects a “**Needs Improvement**” rating a big decline from the last revision for the Calendar Year 2021 by the Baker Tilly Audit firm which was 100%. The LP can improve this rating by designing corrective actions addressing those situations mentioned in the “Opportunities for Improvement and Management Action Plans” section and maintaining internal control design and compliance in the other areas.

Rating Explanations

The possible ICA ratings are listed and defined below:

Compliance Ratio	Rating	Definition
90-100%	STRONG	Internal control practices and LOA compliance are sufficiently comprehensive and appropriate for the size and complexity of the organization. A few exceptions to established policies and procedures were identified.
80-90%	SATISFACTORY	Internal control practices and LOA compliance display modest weaknesses or deficiencies, but they are correctable in the normal course of business.
70-80%	NEEDS IMPROVEMENT	Internal control practices and LOA compliance are lacking in important ways and are a cause for more than supervisory attention. Control exceptions or failures could have adverse effects on the organization if corrective actions are not taken.
40-70%	NEEDS SIGNIFICANT IMPROVEMENT	Serious internal control weaknesses and LOA non-compliance require substantial improvement. Unless properly addressed, these conditions may result in a significant impact to the organization.
0-40%	UNSATISFACTORY	Internal control systems and practices and compliance with LOA requirements are sufficiently weak to jeopardize the continued viability of the organization. and deficiencies require immediate and close supervisory attention.

Opportunities for Improvement and Management Action Plans

Letter of Agreement General Commitments

Observation 1 – Documents are kept indefinitely - Dead File. High Risk

The Local Partner maintains sponsorship sector files stored in an archive (physical documentation) with confidential information on children enrolled over 25 years ago (some files since 1998) as well as accounting/financial documentation. The Social Manager highlighted that she keeps these family documents for all this time to benefit families in vulnerable situations in the process of organizing documentation for retirement when they need it. However, it is not LP's task to assume this responsibility by absorbing yet another demand for work.

The LP is not complying with the provisions of the Sponsorship Manual page. 30 “After leaving the child, the folder must be kept for 3 years. At the end of this period, it can be discarded in a responsible and safe manner”, in addition, it is violating the Standard of the General Data Protection Regulation (“GDPR”), as it constitutes an illegal practice to maintain unnecessary information (documentation) without a specific and clear purpose of use, which do nothing more than increase the organization's risks and costs.

Recommendations:

We recommend that MAFO discard and eliminate the accounting and financial documentation according to the temporality table provided by the GDPR Consulting company in a secure manner. The GDPR recommends that this information not be kept for longer than necessary and manages this life cycle, paying attention to the storage periods of personal data, as well as discarding and eliminating the documentation of children who have been disconnected for more than 3 years. Furthermore, for evidence and control of the discarded documentation, the LP must list in a minute and/or a protocol all the folders that are being eliminated and request approval and (documented) acknowledgment from the Board and keep this document as evidence of the elimination of the documents.

Management Action Plan:

The Organization will comply with the audit recommendations and has already begun separating documentation from the archive and analyzing a safer way to dispose of them.

Responsible Individual: Natalia Gonçalves Moura, Social Educator.

Target Completion Date: Completed.

Observation 2 - Lack of Code of Business Ethics. High Risk

During the term of the Letter of Agreement, it is determined in Clause 3 in item V that LP must maintain and adhere to a Code of Ethical Conduct that is equal to or more stringent than ChildFund. We note that LP does not have a Code of Ethical Conduct, it uses ChildFund's as its own.

Without its own Code of Ethics and/or using ChildFund's, LP assumes the risk that if any of its employees behave ethically inappropriately, the Organization will not have the support to proceed legally with this person or even dismiss them due to the Code that supports the ethical information does not belong to LP, as the employee does not work for ChildFund.

Recommendations:

We recommend that MAFO create its own Code of Ethical Business Conduct, ensuring that the code is consistent and/or equal to or more stringent than ChildFund's Code of Ethics. Furthermore, after the Code is updated, request review and approval from the Board of Directors and that this approval is dated and evident in the document.

The Code of Ethics must contain information about fraud and conflict of interest management that contains at least:

- a) Definition of conflict of interest and express statement that it is not appropriate for any representative of Local Partner to have an outside interest in any business partner or competitor of the Local Partner that could in any way affect the individual's objectivity, influence the way the Local Partner operates or create a conflict of interest.

- b) Any Local Partner representative shall be a consultant or director, officer or employee, or operate an outside business; offering programs and services for families and children in competition with LP; provides products or services to LP; have a contract or agreement with the LP.
- c) Any representative of Local partner shall:
 1. Accept any personal loan or guarantee of LP obligations, except to the extent such arrangements are legally permitted.
 2. Use LP property, information or position for personal benefit.
 3. Carry out business on behalf of LP with family members.
 4. Seek or accept any loan or personal service from any outside company that offers programs or services in competition with LP.
 5. Provides products or services to LP, or has a contract or agreement with LP, except for financial institutions or service providers that offer lending similar services or services to third parties on similar terms or in the normal course of their respective business.
 6. Accept compensation, in any form, for services provided to LP from any source other than LP.
 7. Compete with LP in the purchase or sale of properties, services or other interests.
 8. Accept any benefit, gift or entertainment that is illegal or results in violation of the law.
 9. Accept any gift of cash or cash equivalents (such as gift cards, loans, shares, stock options).
 10. Accepting or requesting anything as equivalent or as part of an agreement to anything in exchange for a benefit, gift or entertainment.
- d) The procedure for any possible conflict of interest that may be in the best interest of LP and involving a director or executive officer of LP must be approved by the Board of Directors and carried out in accordance with all other laws and regulations applicable to LP.
- e) Concept fraud and the Partner's procedure for sanctioning acts of fraud.
- f) Commitment to the Prevention of Sexual Exploitation and Abuse (PSEA).
- g) Commitment to Prevent human trafficking.
- h) Commitment to ensuring equal opportunities and non-discrimination.

Management Action Plan:

The Organization will comply with the audit recommendations and will create its own Code of Ethical Conduct that is accurate or more rigorous than ChildFund's Code of Ethical Conduct and it will be analyzed and approved by the Board of Directors.

Responsible individual: Maria das Graças Alves da Silva, Social Manager and Miguel Ramos, Administrative Assistant

Target Completion Date: Completed.

Financial Management Standards and Performance Criteria

Observation 3 – Weaknesses in the Fixed Asset Report and Lack of Physical Inventory. Moderate risk

According to item 15 Asset Control, page 59 of the Financial Manual made available by ChildFund, it is determined that the LP must carry out the inventory at least once a year to carry out updates and checks to survey the physical presence of each item.

We were presented with a Fixed Asset Report in Excel, however, when we inspected the physical presence of the assets, we observed that none of the selected items had asset tags attached, nor was Social Educator Natália's computer tagged, if the inventory had been carried out, these situations would have been detected.

Additionally, we observed purchases of goods lower than R\$ 1,200 included in the Fixed Assets report and in accordance with law 12,973/14 – article 15, an asset to be considered fixed assets must have a useful life of more than 1 year and a greater value at R\$1,200. Administrative Assistant Miguel indicates that these assets listed in the Report with a cost lower than the limit allow for better control of all LP assets. The control of these assets with values lower than the limit defined by law appearing in the List of Fixed Assets makes it impossible to cross-check the value that is recorded in accounting, that is, the value presented in the Balance Sheet will not be adjusted with the Asset Report LP fixed assets.

The lack of accuracy in the Fixed Asset Report implies and increases the risk of loss and/or theft, which is why it is always necessary to carry out the Annual Inventory to adjust, identify and justify these failures.

Recommendations:

We recommend carrying out a complete physical inventory of assets annually (request guidance from CJS Accounting firm), paying attention to whether they have tags and whether they correspond to the number in the report, as well as whether all items appearing in the report are physically present within the Organization. Any discrepancy or lack of an asset, the reason for the lack, must be determined and justified to the board, as well as communicated to the accounting firm for the necessary adjustments.

Management Action Plan:

The Organization will adjust the asset list by separating items of lower value into a separate list of asset inventory. The physical inventory will be checked to update and place plaques on assets that do not have them.

Responsible individual: Miguel Correia Ramos, Administrative Assistant

Target Completion Date: Completed.

Sponsorship management standards and performance criteria

Observation 4 - Data from children with incorrect records on the Master List. Moderate risk

The LP is responsible for checking participants' documentation and recording personal data on the registration form (Form 2), ensuring that all information passed on to ChildFund is correct. During our analyses, we identified some selected children's folders were incorrectly registered on the Master List compared to their birth certificates.

We emphasize that maintaining correct registration with mandatory and updated documentation for all registered children is essential to identification of duplicate enrollments, avoid compliance problems and damage to the reputation of LP and ChildFund.

Recommendations:

We recommend a complete analysis of the Master List of Children (Master List) compared to the base documentation of each registrant (Birth Certificate, Proof of Address, CSS, etc.) to determine if there are more cases like these that require correction of the personal data of the families, thus guaranteeing the integrity of the information passed on to sponsors and ChildFund.

Management Action Plan:

The Organization will send the correction form for the 4 children identified in the audit process and will be verifying all other children according to their respective birth records.

Responsible Individual: Natalia Gonçalves Moura, Social Educator

Target Completion Date: Completed.

Observation 5 - Child Folder with outdated Child Status Slip – CSS. High risk

The Child Status Slip must be filed within the child's folder (physical or digital) as determined in the Sponsorship Manual (page 30) “What needs to be in each child's folder? Original Model II signed by a parent or guardian, Birth Certificate, Proof of residence, Any updates to Model II, Color photo of the child pasted on Model II, All Child Status Slips (CSS), Copy of all Progress Reports (CPR) carried out (from 2022, these copies must be kept in digital format), Image Use Terms and LGPD signed.”

During our analysis, we identified examples of new registrations selected which had an outdated Child Status Slip (CSS). Example: Leovictor Castelo Branco De Freitas already has the status “Sponsored” and his CSS is listed as “Enrolled”, as well as the subscriber Matheus Ykaro Silva Soares has the status “Available” and his CSS filed in the folder is still “Enrolled”. It is through the CSS that the LP has the chance to check whether the child's data (full name, gender and date of birth) were registered correctly within the system, as well as verify the date the child was sponsored. Social educator Natalia was unaware that the CSS is posted weekly on Fridays by ChildFund to update the children's folders.

Recommendations:

We recommend a complete review of registered children's active files (using the Master List as a reference) to identify all participants' missing CSS to ensure the completeness and integrity of the mandatory key documents that must be contained in each registrant's folder.

Management Action Plan:

The Organization will comply with the audit recommendations and is already carrying out a complete review of the children's files and updating the missing CSS and checking other children's files on a monthly basis.

Responsible individual: Natalia Gonçalves Moura, Social Educator

Target Completion Date: Completed.

Observation 6 - DFC payments transferred to third-party bank accounts. High risk

We identified that the payment of the DFC of sponsored person 112034012 Luiz Fernando da Silva Lino (aged 18) in the amount of USD 1,000/R\$ 5,278 was made to the bank account of his brother José Elias Jr. and the DFC register and MCS slip were signed by his sister Antonia Estelita da Silva.

We emphasize that the Sponsorship Manual states that if payment is made via electronic transfer, the account holder must be the child or their parents/legal guardian.

It is important to highlight the risks involved in this type of transaction, because if the child's relative receives the DFC and does not transfer the amount due or only transfers part of the amount to the child/family, it is the LP's responsibility to make full payment to the child. Additionally, no type of statement or document was identified that the legal guardians (or the sponsored person) are authorizing the bank transfer to the third party's account. In this regard, if the family (legal guardian) complains that they did not receive the DFC, the LP will not have supporting documentation proof of payment and LP will have to bear these amounts to pay.

Recommendations:

Given the risks exposed, our recommendation is to only transfer the DFCs to the bank accounts of the child's legal guardians, thus avoiding potential conflicts with the family. For cases where the family is unable to access their own bank account, we believe that the best payment option is by check payable to the legal guardian to ensure the reliability of the process.

Management Action Plan:

Regarding the child identified in the audit process, it has already been resolved, the child created his own account and has already started receiving payment in his name in December 2023. The other children who are not receiving it under their names or in the name of the guardian are asking for an authorization statement by the guardian, and we are attaching it to the payment.

Responsible individual: Natalia Gonçalves Moura, Social Educator

Target Completion Date: Completed.

Program Management Standards and Performance Criteria

Observation 7 - Purchase of Pedagogical Kits were not delivered in full to beneficiaries. High risk

The LP made the purchase of 2,004 Pedagogical Kits for a total value of R\$8,226 in October/2023 for the activity “ID131-03 Provide paired learning sessions for parents and care in parental responsibilities”, however, it was only possible to evidence the partial delivery of only 663 kits for beneficiaries. The difference of 1,341 kits missing that are not stored at LP and it was not possible to demonstrate distribution to beneficiaries. According to the Social Manager, all educational kits were delivered during activities carried out in schools, but the distribution lists have not yet been returned signed to show the delivery to the beneficiaries. We emphasize that all lists must be collected at the time of delivery of the items for control and verification purposes. Additionally, an extra resource in the amount of R\$ 12,353 was requested, through form M8 from ChildFund for the purchase of 1,224 Pedagogical Kits for the “Life Skills Program, Activity B02-08 Exchanges and Seminars” where only 388 kits were delivered for the activity. However, we observed that part of the distribution of these kits was carried out for activities of another Program “Family Caregiver Activities CA02-02 – Casinha de Cultura” (285 Kits delivered) and “A02-08 Awareness raising for family and community skills” (551 Kits delivered), with the total purchase cost being fully allocated to Program B02 – Skills for Life, without due knowledge from ChildFund. We emphasize that all resources requested from ChildFund for a given Program/Activity must have a valid commercial purpose and their allocation must follow the request and approval granted, for better transparency and good management of Annual Operational Plan (“AOP”) planning.

Recommendations:

For any distribution of goods, MAFO must collect signatures from beneficiaries at the delivery time, as well as collect and maintain these lists stored and organized to prove that all beneficiaries received the items for which funds were disbursed. For cases in which the goods were not distributed in their entirety, the LP must create control of the quantities that were delivered as well as the remaining quantity for subsequent delivery.

Management Action Plan:

When the 2024 school year returns, we will be going to schools to collect all attendance records that prove the delivery of the kits. We will also create quantity control to monitor the quantities delivered and those still to be delivered.

Responsible individual: Natalia Gonçalves Moura, Social Educator and Miguel Correia Ramos, Administrative Assistant.

Target Completion Date: Completed.

Governance and Other Risk Areas

Observation 8 - Lack of Stock Control for Poultry NSP. High risk

We identified that there is no stock control of the Poultry Non-Sponsorship Program (NSP) (Activity ID111-04 Training and support in the implementation of agriculture, family orchards, poultry farming initiatives and similar) signed in September 2023. A purchase worth R\$42,800 (chicks, feed, vaccines, etc.) on 10/27/2023 and deliver part of the items to the 41 beneficiaries of the Program. However, it was not possible to demonstrate the quantity received by each of the beneficiaries, nor did the LP carry out an inventory/stock control of the remaining items that were still left for distribution to the beneficiaries.

For efficient management, stock and inventory controls are extremely important tools to avoid losses, deviations and offer transparency to processes. It is important to have a physical and digital list that controls the entries and exits of items, as determined in the GIK and NSP Procedure provided by ChildFund.

Recommendations:

We recommend that MAFO create an inventory control for each NSP that contains goods to be distributed, recording the quantity of items purchased, subtracting the quantity delivered to each beneficiary, until all goods are delivered in

full. Additionally, it is essential that the goods distribution list includes the quantity received by each of the beneficiaries, so that it is possible to prove that all purchased goods were delivered, thus corresponding to the quantity informed (purchased) on the vendor's invoice.

Management Action Plan:

The Organization will comply with the audit recommendations and will create inventory control to check the quantities delivered and remaining, as well as we having already added the quantity received column for the next deliveries to the distribution list and preparing a qualitative and quantitative report.

Responsible individual: Maria das Graças Alves da Silva, Social Manager.

Target Completion Date: Completed.

Observation 9 - Lack of Information Security/Information Technology Policy. Moderate risk

We note that MAFO has not implemented or developed an Information and/or IT Security Policy (this Policy may be incorporated within the Child Safeguarding Policy). An Information Security policy identifies the rules and procedures that all individuals who access and use an organization's IT assets and resources must follow. With a well-designed information security policy, it is possible to considerably reduce certain risks, giving the organization due protection against internal threats and security breaches.

Recommendations:

The Organization shall establish and implement an IT Information Security Policy (or this information may be incorporated into the LP Child Safeguarding Policy). The policy must be reviewed and approved by the Board, addressing at a minimum password and system security, use of software antivirus, application and file backup (minimum monthly) and data and record retention and that this information is accessible and known to all employees.

Management Action Plan:

The Organization is creating the IT Information Security Policy, through a specific Manual for this purpose, where the guidelines will be available in a clear and objective manner to all members of the institution. This manual will be studied and analyzed in a formative moment together with the board for approval and later implementation.

Responsible Individual: Miguel Correia Ramos, Administrative Assistant.

Target Completion Date: Completed.