PD-AAZ-012

ISN: 60250

AUDIT OF COMMODITY CONTROLS UNDER USAID/BANGLADESH FAMILY PLANNING PROJECTS AS IMPLEMENTED BY THE GOVERNMENT OF BANGLADESH PROJECT NOS. 388-0050 AND 388-0071

AUDIT REPORT NO. 5-388-89-04-N
MARCH 23, 1989

AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR AUDIT
— Singapore —

U.S. POSTAL ADDRESS:
American Embassy
AID/RIG
FPO San Francisco 96699

INTERNATIONAL ADDRESS:
c/o American Embassy
30 Hill Street
Singapore 0617
Tel: 225-1033

March 23, 1989

MEMORANDUM FOR Priscilla M. Boughton
Director, USAID/Bangladesh

FROM: Mr. Reginald Howard, RIG/A/Singapore

SUBJECT: Audit of the Commodity Controls under the USAID/Bangladesh Family Planning Projects as implemented by the Government of Bangladesh (Project Nos. 388-0050 and 388-0071), Audit Report No. 5-388-89-04-N.

This report presents the results of a Non-Federal financial and compliance audit of the commodity controls under the USAID/Bangladesh Family Planning Projects as implemented by the Government of Bangladesh. The certified public accounting firm of Coopers and Lybrand, Brunei in conjunction with its correspondent firm, A. Qasem & Co. in Bangladesh, prepared the report.

The purpose of the audit was to evaluate the adequacy of the project's accounting systems and internal controls for USAID financed commodities, and to determine whether the project was in compliance with applicable laws, regulations and agreement terms.

Coopers and Lybrand's report discusses problems in the areas of (1) commodity reporting forms, (2) monthly physical inventories and reconciliation of differences (3) first in first out commodity issuance procedures and (4) storage facilities.

In the opinion of Coopers and Lybrand, the Government of Bangladesh Ministry of Health and Family Planning and USAID/Bangladesh complied with applicable laws, regulations, and agreement terms for the items tested, except that (1) the Ministry had not submitted a comprehensive in-country training plan, and (2) commodities were not insured against loss and damage.

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The Coopers and Lybrand report contains seven recommendations to improve internal controls within the Government of Bangladesh and to address compliance issues. We have combined these into four recommendations. Accordingly, the following recommendations will be included in the Office of Inspector General's audit recommendation follow-up system.

Recommendation No. 1

We recommend that USAID/Bangladesh ensure the Bangladesh Ministry of Health and Family Planning:

(a) provides prescribed reporting forms in sufficient numbers to warehouses, storerooms, upazillas, and service outlets;

(b) provides additional training to supply staff on the use of reporting forms;

(c) enforces procedures on the use of first in first out inventory flow procedures and the proper storing of commodities to ensure that older commodities are issued first and manufacturing/expiration and arrival dates for the commodities are clearly visible;

(d) submits a comprehensive in-country logistics and supply training plan as specified in the project agreement; and

(e) obtains full value insurance for family planning commodities against risks of loss or damage incident to their transit from the port of entry in Bangladesh to the point of their intended use.

Recommendation No. 2

We recommend that USAID/Bangladesh ensure the Bangladesh Ministry of Health and Family Planning:

(a) performs monthly counts of physical inventories of family planning commodities at all locations;

(b) reconciles the monthly counts of physical inventories to the commodity accounting records immediately after the counts are performed and summarized;

(c) resolves in a timely manner any differences between the monthly physical inventory counts and the commodity accounting records; and

(d) provides the necessary training to appropriate personnel on the importance of monthly physical counts, the summarization of those counts, and the reconciliation of those counts to the commodity accounting records.

Recommendation No. 3

We recommend that USAID/Bangladesh ensure the Bangladesh Ministry of Health and Family Planning develops a plan to provide adequate:

(a) fire fighting equipment at all commodity storage facilities;

(b) dunnage at all storage facilities;

(c) ventilation at all storage facilities; and

(d) training to storage facilities staff so that they understand the need for adequate storage, facility ventilation and dunnage and so that the staff can effectively use fire fighting equipment.

Recommendation No. 4

We recommend that USAID/Bangladesh ensure the Bangladesh Ministry of Health and Family Planning:

(a) improves the reporting under the Logistics Management Information System at the upazilla levels; and

(b) investigates and resolves reconciling differences between physical counts and Logistics Management Information System reports in a timely manner.

The information attached to your memorandum commenting on the draft report was fully considered by Coopers and Lybrand in finalizing their report and by us in assessing the corrective actions taken and planned. (A copy of this attachment, which comprises over 60 pages, is available to recipients of this report upon request). As a result of the information presented, Coopers and Lybrand revised the finding on commodity inventory.

Based upon the comments to the draft report and the related attachments, Recommendation Nos. 1a, 1b, 1c and 2d above are closed. Due to substantial efforts underway, closure action was also requested on Recommendation Nos. 2a, 2b and 2c. I have resolved these recommendations but believe that they should remain open until USAID/Bangladesh obtains evidence that recommended actions have actually occurred, i.e. monthly physical inventories have been taken at all locations along with appropriate reconciliations.

C

We were asked to withdraw Recommendation No. 1d because of the funds and efforts expended for training in the areas of logistics and commodities. This recommendation has been revised. It is resolved and can be closed upon USAID/Bangladesh's receipt and approval of the training plan required by the project agreement.

The remaining recommendations, 1e, 3a-d and 4a-b are also resolved based upon the information presented in the attachment to your memorandum. These recommendations will be closed corrective actions have been completed.

Please advise this office within 30 days of actions planned or taken to implement the open recommendations.

N

AUDIT SURVEY OF THE COMMODITY CONTROLS UNDER THE USAID/BANGLADESH FAMILY PLANNING PROJECT NOS. 388-0050 AND 388-0071

BANGLADESH MINISTRY OF HEALTH AND FAMILY PLANNING

Performed and Prepared

by

Coopers & Lybrand
Brunei Darussalam

A. Qasem & Company
Bangladesh

TABLE OF CONTENTS

	PAGE No.
TRANSMITTAL LETTER	
. BACKGROUND	1
. AUDIT OBJECTIVES AND SCOPE OF WORK	4
. RESULTS OF AUDIT SURVEY	5
AUDITORS' REPORT ON INTERNAL CONTROLS	8 & 9
AUDITORS' REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS	18
EXHIBITS (A-B)	22 & 23

TRANSMITTAL LETTER

كوفرس
داڤ ليبرند

Coopers
&Lybrand

Brunei Darussalam
registered auditors
resident partner A J Chapman

telephone 31406 & 31407
telegrams Colybrand
Kuala Belait

P O Box 290 Room T8
Hongkong Bank Chambers
Jalan McKerron
Kuala Belait
Negara Brunei Darussalam

a member firm of
Coopers & Lybrand (International)

your reference
our reference
9 March 1989

Mr B.R.Howard
Agency for International Development
Regional Inspector General For Audit
- Singapore
Singapore 0104

Dear Mr Howard

This report presents the results from our Audit Survey of the Commodity Controls Under the USAID/Bangladesh Family Planning Project Nos. 388-0050 and 388-0071 as implemented by the Bangladesh Ministry of Health and Family Planning for the period 1 March 1987 to 29 February 1988.

Background

Bangladesh is the world's most densely populated agrarian country, with over 1,854 people per square mile (1986). A population growing at about 2.7 percent per year (doubling every 26 years) vitiates recent gains in agricultural production and postpones the Bangladesh Government's (BDG's) goal of food self-sufficiency. Intense population pressure on the country's fertile but finite land base is driving many Bangladesh people off the farm. While Bangladesh is still a predominantly rural, agricultural society, pressures on the land base have resulted in a rapid urban growth rate of about 5.6 percent per year. Overcrowding in rural areas has increased the number of rural households that are landless, now estimated at over 50 percent. Estimates of unemployment range from 23 percent to 42 percent, with annual labor force growth rates projected to rise from 2.8 percent in 1985 to 3.5 percent in the year 2000.

USAID/Bangladesh has recognized the importance of improving the coverage and quality of family planning services as a principal means to sustaining development in Bangladesh. To assist in this development, USAID/Bangladesh has financed two large family planning projects. The Family Planning Services Project No. 388-0050 is an effort authorized at $153 million. It started in 1981 and is due to end 30 September 1989. The follow-on Family Planning and Health Services Project No. 388-0071 will provide $175 million. The first year of obligation was FY 87 and the completion date is 30 September 1994. USAID's assistance under both programs supports Bangladesh's national family planning and maternal and child health programs through provision of funds for technical assistance, participant training, operations research, contraceptive commodities, clinical and community based family planning services, training materials and training sessions, contraceptive prevalence surveys, and immunization surveys.

A principal element of USAID's assistance is to provide the necessary contraceptives and family planning supplies, and to improve the distribution and delivery systems of these supplies to the end-user. The Family Planning Services Project has provided contraceptive commodities and supplies valued at over $56 million. The Family Planning and Health Services Project is expected to provide contraceptive commodities valued at $36 million.

Contraceptives and other family planning commodities are basically provided through two distribution systems - public and private. The public system is implemented through the BDG's Ministry of Health and Family Planning (MOHFP) which provides contraceptives on a free basis through its own facilities and personnel. The private system is operated through the Social Marketing Project (SMP), which has provided subsidized contraceptives through commercial outlets since 1975. USAID funds the SMP through a cooperative agreement with Population Services International (PSI), a non-governmental organization. The Ministry of Health and Family Planning (MOHFP) distribution system consists of:

- a central warehouse in Dhaka;
- three regional warehouses in Khulna, Bogra and Chittagong;
- 64 district offices;
- 460 upazilas (storerooms);
- approximately 2,400 service outlets; and
- about 18,000 government fieldworkers distributing contraceptives at the community level.

Commodities are initially received at the port in Chittagong. Once clearance is obtained, commodities are forwarded to the regional warehouse in Chittagong. The Chittagong regional warehouse retains the commodities it needs to support its district storerooms, upazilas and service outlets, and forwards the balance to the central warehouse in Dhaka. In the central warehouse in Dhaka, commodities are labelled and packaged and then they are forwarded to the regional warehouses in Bogra and Khulna. The central warehouse in Dhaka retains the commodities it needs to support its district storerooms, upazilas and service outlets. Commodities are then forwarded to district storerooms from regional warehouses. The district storerooms maintain commodities to support the upazilas. The upazilas withdraw commodities from their respective district storerooms based on their estimates of commodities needed to support the service outlets. The service outlets deliver the commodities, without any charge, to the general public through Union Health and Family Welfare Centers and Family Planning Assistants.

In addition, the MOHFP provides contraceptives from its central warehouse to a large and complex network of other non-governmental organizations who work throughout Bangladesh.

During calendar years 1985, 1986, 1987 and for the period 1 January 1988 to 29 February 1988, the MOHFP received approximately the following contraceptives from USAID :-

	CONDOMS	IUDS (COPPER)
1985	94,248,000	600,000
1986	87,978,000	500,000
1987	10,966,000	500,000
1988	6,384,000	-

USAID has identified deficiencies in the logistics system. A study performed by USAID in 1987 for the Family Planning and Health Services Project identified the need for further improvement and specified the improvements should address problems such as :-

(a) inadequate supply of commodities at the family welfare assistant level;

(b) managerial inexperience;

(c) inadequate training;

(d) inadequate BDG staffing; and

(e) poor logistics transportation.

USAID has helped the MOHFP in establishing a Logistics Management Information System (LMIS) to track commodity distribution from the central warehouse to the service outlets including distribution of commodities at the community level. A Logistics Management Advisor (LMA) is USAID's focal point for monitoring the distribution of family planning commodities and for assisting in improving the logistics system. This assistance centers on conducting annual physical inventories, establishing the LMIS, conducting logistics training, preparing a revised supply manual, policies, procedures and reporting accountability requirements.

Mr B.R.Howard
Agency for International Development
Regional Inspector General for Audit
- Singapore
Singapore 0104

Audit Objectives and Scope of Work

We conducted an Audit Survey of the Commodity Controls under the USAID/Bangladesh Family Planning Project Nos. 388-0050 and 388-0071 as implemented by the Bangladesh Ministry of Health and Family Planning for the period 1 March 1987 to 29 February 1988. The results of our work are reflected in the accompanying Auditors' Report on Internal Controls and Auditors' Report on Compliance with Agreement Terms and Applicable Laws and Regulations.

The objectives of the Audit Survey was to assess the adequacy of the accounting systems and internal controls in use by the Bangladesh Government for USAID financed commodities provided under the two projects from the time the commodities were received in Bangladesh to the time the commodities are distributed to end-users. In addition, the audit survey also included an examination of compliance with the terms and conditions of the project agreements and USAID regulations related to commodities, and a review of USAID/Bangladesh project monitoring systems.

The Audit Survey was conducted in accordance with the "Examination Objectives" and the "Audit Survey Phase" outlined in Chapters 2 and 3 respectively, of the "Guidelines for Financial and Compliance Audits of AID-Financed Agreements" and standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions promulgated by the Comptroller General of the United States.

The scope of our work primarily included the following general procedures :-

1. Holding meetings with USAID, MOHFP and RIG/A/S officials.

2. Reviewing grant agreements and amendments, USAID regulations and handbooks, project implementation letters, prior audit reports and project studies and correspondence between USAID and MOHFP and commodity supply manuals.

3. Documenting commodity accounting and management systems using flowcharts, narratives, transaction testing and on-site visits (warehouses, district storerooms, upazilas and service outlets) including interviews with site personnel.

4. Documenting commodity monitoring systems based on interviews, review of handbooks and correspondence files.

5. Evaluating internal control systems using questionnaires.

6. Performing tests of compliance on internal control systems.

7. Assessing adequacy of storage facilities during on-site visits.

8. Testing USAID and MOHFP compliances with applicable grant agreements, regulations, terms and conditions.

The on-site visits included the locations included in Exhibit A to this report.

In addition to the general audit survey procedures described above, during the audit survey we were continually alert to situations/ transactions which could be indicative of fraud, abuse, waste and illegal acts.

Results of Audit Survey

USAID has made considerable progress in assisting the MOHFP in improving commodity management and distribution and the utilization of commodities and the provision of third-country participant training. As part of this progress, USAID has assisted in the development of the commodity supply manual and policies and training of senior MOHFP staff in logistics and supply theory including the development in establishing an automated logistics management information system. Though real improvements have been made, the MOHFP still needs to make significant additional improvements to enhance its commodity management and distribution systems and training programs.

Internal Controls

Our study and evaluation of the system of internal controls of the Ministry of Health and Family Planning (MOHFP), in relation to commodities, and made for the limited purposes of the Audit Survey, did disclose the following conditions that we believe could result in more than a relatively low risk that errors or irregularities in receipts/issues of commodities that could be material in relation to the commodity accountability statements of the MOHFP that may occur and not be detected within a timely period :-

(1) The commodity accountability statements may not reflect accurate and complete commodity activity data as :-

(a) prescribed commodity reporting forms are not being properly used; and
(b) prescribed monthly physical inventories and reconciliations of commodities are not always performed;

(2) Prescribed FIFO inventory flow procedures are not always used in issuing commodities;

(3) Commodity storage facilities are not always as adequate as prescribed;

(4) Storage facilities and commodity management staff do not appear adequately trained and supervised; and

(5) Differences between the physical counts and LMIS reports on commodities did not appear to be adequately investigated and resolved.

Because our study and evaluation of the system of internal controls was made for the limited purposes of the Audit Survey, it would not necessarily disclose all weaknesses in the system, and therefore, we do not express an opinion on the system of internal control of the MOHFP taken as a whole or on the receipts/issues of commodities.

Compliance with Agreement Terms and
Applicable Laws and Regulations

Our tests for compliance with agreement terms and applicable laws and regulations of selected transactions and records of the MOHFP and USAID indicate, that for the items tested and except for the following items of noncompliance, MOHFP and USAID complied with those provisions of agreement terms and applicable laws and regulations in which noncompliance could have a material effect on the MOHFP and USAID commodity accountability statements :-

(1) A comprehensive plan for in-country training has not been submitted and implemented; and

(2) Commodities do not appear to be covered by insurance.

The extent of noncompliance noted in our testing indicates that with respect to transactions and records of the Projects that were not tested by us, there is more than a relatively low risk that MOHFP and USAID may have violated agreement terms and applicable laws and regulations.

Mr B.R.Howard
Agency for International Development
Regional Inspector General for Audit
- Singapore
Singapore 0104

Management Comments on our
Findings and Recommendations

USAID Bangladesh were generally in agreement with our findings and recommendations. They have advised of the various measures which are being or have been taken to rectify the weaknesses and areas of non-compliance which were highlighted during our survey. These measures include proposed enhancements of training programmes, the reaffirmation in writing of control procedures with the MOHFP and planned exercises involving both USAID Bangladesh and the MOHFP to establish agreement on new control procedures.

Yours truly

Coopers & Lybrand

COOPERS & LYBRAND

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AUDITORS' REPORT

ON

INTERNAL CONTROLS

Coopers & Lybrand

Brunei Darussalam
registered auditors
resident partner A J Chapman

telephone 31406 & 31407
telegrams Colybrand
Kuala Belait

P O Box 290 Room T8
Hongkong Bank Chambers
Jalan McKerron
Kuala Belait
Negara Brunei Darussalam

a member firm of
Coopers & Lybrand (International)

your reference
our reference

AUDIT SURVEY OF THE COMMODITY CONTROLS
UNDER THE USAID/BANGLADESH FAMILY PLANNING
PROJECT NOS. 388-0050 AND 388-0071

BANGLADESH MINISTRY OF HEALTH AND FAMILY PLANNING

AUDITORS' REPORT ON INTERNAL CONTROLS

We have performed an Audit Survey of The Commodity Controls Under the USAID/Bangladesh Family Planning Project Nos. 388-0050 and 388-0071 for the period 1 March 1987 to 29 February 1988 and have issued our report thereon dated 9 March 1989. As part of the Audit Survey, we made a study and evaluation of the system of internal controls of the Bangladesh Ministry of Health and Family Planning to the extent we considered necessary to evaluate the system, in relation to commodities as required by generally accepted auditing standards, the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions promulgated by the Comptroller General of the United States and Guidelines for Financial and Compliance Audits of AID-Financed Agreements, Chapter 3. For the purpose of this report, we have classified the significant internal controls in the following category:

- Receipts/Issues of Commodities

Our study included the control category listed above and our study and evaluation was more limited than would be necessary to express an opinion on the system of internal controls taken as a whole.

The management of MOHFP is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute assurance, that United States Government assets (commodities) are safeguarded against loss from unauthorized use or disposition, and that commodity transactions are executed in accordance with management's authorization and recorded properly to permit accurate and complete reporting of commodity issues and receipts.

Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

C&L

Bandar Seri Begawan office: Room 50, Hongkong Bank Chambers, Jalan Pemancha,
Bandar Seri Begawan, Negara Brunei Darussalam · Tel 02-23341 & 25486 · P O Box 1628

Our study and evaluation made for the limited purposes described in the first paragraph would not necessarily disclose all weaknesses in the system. Accordingly, we do not express an opinion on the system of internal control of MOHFP taken as a whole or on the category of controls identified in the first paragraph. However, our study and evaluation did disclose conditions that we believe could result in more than a low risk that errors or irregularities in receipts/issues of commodities that could be material in relation to the commodity accountability statements of MOHFP for Family Planning Projects Nos. 388-0050 and 388-0071 may occur and not be detected within a timely period. The major conditions are discussed on pages 10-17 of this report.

This report is intended solely for the use of MOHFP management, the RIG/A/S and USAID and should not be used for any other purpose. This restriction is not intended to limit distribution of this report, which upon acceptance by the A.I.D. Regional Inspector General, is a matter of public record.

Coopers & Lybrand

COOPERS & LYBRAND
Brunei Darussalam

9 March 1989

1. COMMODITY REPORTING FORMS ARE NOT BEING PROPERLY USED

Condition

Of the 20 warehouses, storerooms, upazilas and service outlets visited during the Audit Survey, 12 used out-of-date requisition forms, 15 did not complete all columns of Form 8 (Indent & Issue Voucher) and 8 used plain paper in the absence of proper reporting forms.

Criteria

The Supply Manual provides examples of the types of forms and instructions for their use when requesting, issuing and reporting commodities.

Cause

The prescribed forms are not regularly supplied in adequate quantities and staff do not appear properly trained in preparing and issuing these forms.

Effect

Accurate and complete information may not be reported for commodity receipts, issues and balances on hand.

Recommendation

USAID/Bangladesh should require The Ministry of Health and Family Planning to provide :-

(a) prescribed reporting forms in sufficient numbers to warehouses, storerooms, upazilas and service outlets; and

(b) additional training to staff on the proper use of the prescribed reporting forms.

Management Comments

USAID Bangladesh agrees with the findings and recommendations. Management is taking action to procure sufficient forms to cover the period up to 1992 and consideration is being given to expanding and improving the comprehensive training programme which is currently underway by utilising the services of John Snow Inc which has been contracted to provide administrative and technical support to the training programme.

2. MONTHLY PHYSICAL INVENTORIES OF FAMILY PLANNING COMMODITIES ARE NOT PERFORMED AT ALL LOCATIONS

Condition

A USAID sponsored annual physical inventory count of family planning commodities is performed at all locations. However, monthly physical counts were not performed at 13 of the 20 locations visited by us during the audit. Further, monthly verification of the completeness and accuracy of the accounting records could not be performed at these locations as monthly physical counts are not being performed.

Criteria

The Supply Manual requires physical stock counts to be carried out once a month and the physical balances are to be compared to book records. This should be done by the Central/Regional Warehouse Supply Officer (Supply Manual para. 5.1, page 29), by the District Warehouse Deputy Director (Supply Manual para. 5.1, page 34) and by the Upazila Storeroom Family Planning Officer (Supply Manual para. 4, page 36).

Cause

Monthly physical inventories and book-physical reconciliations are not performed at the various locations because supervisory personnel have not established routine procedures to ensure that the inventories are counted and reconciled to the accounting records, and the counts properly supervised. In addition, warehouse, storeroom and upazila personnel generally do not appear to understand the importance of performing monthly physical inventories and reconciliations as an internal accounting control measure and as an element of the commodity accounting system.

Effect

The commodity accounting records and related reports may not present an accurate and complete accounting of the actual physical stock at a location at any point in time. Management decisions may be made from inaccurate and incomplete commodity accounting information.

2. MONTHLY PHYSICAL INVENTORIES OF FAMILY PLANNING COMMODITIES ARE NOT PERFORMED AT ALL LOCATIONS

Recommendation

USAID/Bangladesh should require the Ministry of Health and Family Planning to instruct its supervisory supply personnel to :-

(a) perform monthly counts of physical inventories of family planning commodities at all locations;

(b) reconcile the monthly counts of physical inventories to the commodity accounting records immediately after the counts are performed and summarized;

(c) immediately resolve any differences between the monthly physical inventory counts and the commodity accounting records; and

(d) provide the necessary training to appropriate personnel on the importance of monthly physical counts, the summarization of those counts, the reconciliation of those counts to the commodity accounting records and the resolution process.

Managements Comments

USAID Bangladesh advised us that they have written a letter dated 11 December 1988 to the Directorate of Family Planning informing them of the new control procedures that are required to be implemented and activated in order to cover our recommendations. Training efforts are also planned to be increased in this area utilising the services of John Snow Inc which is providing administrative and technical support to the existing training programme.

3. FIRST IN FIRST OUT (FIFO) INVENTORY FLOW PROCEDURES WERE NOT ALWAYS USED IN ISSUING COMMODITIES

Condition

In 4 of the 20 warehouses, storerooms, upazilas and service outlets visited by us, commodities were apparently not stored to facilitate the issue of commodities on a FIFO basis. In 7 of the 20 locations visited, dates of manufacture/receipt of commodities were not clearly marked to facilitate the issue of commodities on a FIFO basis.

Criteria

The Supply Manual "Procedure for Proper Storage" (pages 12-14) requires commodities to be stored and identified in a manner which facilitates that older stocks are issued first (first ones received should be the first ones issued).

Cause

Warehouse, storeroom and upazila staff do not appear knowledgable about FIFO issuing and storage procedures. They apparently were not instructed to store/record commodities by date of manufacture /receipt to facilitate FIFO issuance of commodities.

Effect

Failure to follow prescribed FIFO inventory flow procedures when issuing commodities could lead to older stocks becoming damaged/suspect and subsequently unusable. Further, when manufacturing/expiration dates are not clearly marked and monitored, out of date commodities could be issued with adverse medical effects.

Recommendation

USAID/Bangladesh should require The Ministry of Health and Family Planning to enforce procedures on the use of FIFO inventory flow procedures and proper storing of commodities to ensure that older commodities are issued first and that manufacturing/expiration and arrival dates for the commodities are clearly visible.

Managements Comments

USAID Bangladesh in their letter of 11 December 1988 to the Directorate of Family Planning reminded them of the inventory management practices which should be adhered to at all times. We have also been informed that efforts will be made to improve and enhance training aspects relating to our recommendation by utilising the services of John Snow Inc which is providing administrative and technical support to the existing training programme.

4. STORAGE FACILITIES APPEAR TO BE INADEQUATE

Condition

In 12 of the 20 warehouses, storerooms, upazilas and service outlets visited by us, there appeared to be inadequate dunnage/shelves, and fire fighting equipment was not available in 7 of the 20 locations visited. Further, there appeared to be insufficient ventilation in 9 of the 20 locations visited.

Criteria

The Supply Manual "Procedure for Proper Storage" (pages 12-14) requires all cartons of commodities to be stored on proper dunnage with adequate ventilation and at a specified distance between the cartons and the floor/walls. Furthermore, fire fighting equipment should be made available to protect commodities from loss from fire.

Cause

Adequate dunnage appears to be in short supply and storage facilities staff do not appear to have the training necessary to understand the need for adequate ventilation and fire fighting equipment.

Effect

Inadequate storage facilities may cause rapid deterioration of commodities and reduce their shelf life. Further, commodities could be completely destroyed in a fire thereby causing a total loss of commodities.

Recommendation

USAID/Bangladesh in conjunction with the Bangladesh Ministry of Health and Family Planning, should develop a plan to :-

(a) ensure adequate fire fighting equipment is present at all commodity storage facilities;

(b) ensure adequate dunnage is available at all storage facilities;

(c) ensure all storage facilities are adequately ventilated; and

(d) provide adequate training to storage facilities staff to ensure they understand the need for adequate storage facility ventilation and dunnage and to ensure that the staff can effectively use fire fighting equipment.

4 STORAGE FACILITIES APPEAR TO BE INADEQUATE (Continued)

Managements Comments

USAID Bangladesh have advised us that they will be liaising with the Ministry of Health and Family Planning to establish and implement a programme of activities to deal with all aspects of our recommendations.

5 DIFFERENCES BETWEEN THE PHYSICAL COUNTS AND LMIS REPORTS ON COMMODITIES DID NOT APPEAR TO BE ADEQUATELY INVESTIGATED AND RESOLVED

Condition

In 1985, 1986 and 1987, there were significant reconciling differences of the commodities between the physical counts and the LMIS reports. These differences which are in hundreds of thousands of commodities did not appear to be adequately investigated and resolved. The differences are summarised in Exhibit B.

Although the commodities inventory figures in the physical counts and the LMIS reports are arrived at by different methods and systems, the figures are reconcilable and should be reconciled to ensure the accuracy of the commodities inventory figures.

Criteria

Sound accounting practice and commodity management requires the reconciling differences between the physical counts and the transaction records of inventories (LMIS) be properly investigated and differences adequately resolved.

Cause

Physical counts are not performed monthly and reconciled to the LMIS records by staff of MOHFP.

There is inadequate monitoring of the LMIS reporting system at the upazilla level, eg. Form 7B's are not submitted to the Central Warehouse, and as a result LMIS staff are not in a position to reconcile differences unless site visits are performed. Because of this it is also not possible to reconcile the commodity inventory difference to the LMIS reports below the district level.

Effects

Unless the reconciling differences between the physical counts and LMIS reports are investigated and resolved timely there could be the following consequences :

(a) causes of reconciling differences cannot be determined and any losses arising could continue for a significant period before they are arrested; and

(b) there is no assurance that the information given by the LMIS system is accurate and reliable and as a result management decisions may be made from incorrect data. Furthermore, the situation will also adversely affect monitoring and control of the usage and custody of the commodities.

5 DIFFERENCES BETWEEN THE PHYSICAL COUNTS AND LMIS REPORTS ON COMMODITIES DID NOT APPEAR TO BE ADEQUATELY INVESTIGATED AND RESOLVED (Continued)

Recommendation

USAID/Bangladesh with the assistance and co-operation of MOHFP should :

(a) improve the LMIS reporting system at the upazilla levels; and

(b) investigate and resolve reconciling differences between physical counts and LMIS reports timely.

Management's Comments

USAID Bangladesh have informed us that they have initiated action to upgrade the LMIS reporting system at upazila levels, improve reconciliation and follow up procedures through meetings and correspondence with the Directorate of Family Planning and proposals to be set up a USAID supported monitoring team, and to employ Bangladesh firms of chartered accountants to perform special reconciliations at sites which have a high profile of unreconciled transactions. USAID will advise RIG by June 30, 1989 as to the status of the workplan agreed with MOHFP.

17W

AUDITORS' REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

Coopers & Lybrand
Brunei Darussalam
registered auditors
resident partner A. J. Chapman

telephone 31406 & 31407
telegrams Colybrand
Kuala Belait

P O Box 290 Room T8
Hongkong Bank Chambers
Jalan McKerron
Kuala Belait
Negara Brunei Darussalam

a member firm of
Coopers & Lybrand (International)

your reference
our reference

AUDIT SURVEY OF THE COMMODITY CONTROLS
UNDER THE USAID/BANGLADESH FAMILY PLANNING
PROJECT NOS. 388-0050 AND 388-0071

BANGLADESH MINISTRY OF HEALTH AND FAMILY PLANNING

AUDITORS' REPORT ON COMPLIANCE WITH
AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

We have performed an Audit Survey of The Commodity Controls Under the USAID/Bangladesh Family Planning Project Nos. 388-0050 and 388-0071 for the period 1 March 1987 to 29 February 1988 and have issued our report thereon dated 9 March 1989. As part of the Audit Survey, we performed tests of compliance for MOHFP and USAID with agreement terms and applicable laws and regulations to the extent we considered necessary to evaluate compliance as required by the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions promulgated by the Comptroller General of the United States and Guidelines for Financial and Compliance Audits of AID-Financed Agreements, Chapter 3.

MOHFP and USAID are responsible for compliance with agreement terms and applicable laws and regulations. In connection with the Audit Survey referred to above, we selected and tested transactions and records to determine compliance with agreement terms and applicable laws and regulations in which noncompliance could have a material effect on the commodity accountability statements of MOHFP and USAID.

The results of our tests indicate that for the items tested, and except as noted on pages 19-21, MOHFP and USAID complied with those provisions of agreement terms and applicable laws and regulations in which noncompliance could have a material effect on the commodity accountability statements of MOHFP and USAID. However, the extent of noncompliance noted in our testing indicates that with respect to transactions and records of the Projects that were not tested by us, there is more than a relatively low risk that MOHFP and USAID may have violated agreement terms and applicable laws and regulations.

This report is intended solely for the use of MOHFP management, the RIG/A/S and USAID and should not be used for any other purpose. This restriction is not intended to limit distribution of this report, which upon acceptance by the A.I.D. Regional Inspector General, is a matter of public record.

Coopers & Lybrand
COOPERS & LYBRAND
Brunei Darussalam

9 March 1989

1. A COMPREHENSIVE PLAN FOR IN-COUNTRY TRAINING HAS NOT BEEN SUBMITTED AND IMPLEMENTED

Condition

MOHFP has not submitted to USAID a comprehensive plan for in-country training of staff at all levels of the Logistics and Supply Unit of the Family Planning Directorate of MOHFP.

Criteria

The Project Grant Agreement between the People's Republic of Bangladesh and the United States of America for the Family Planning and Health Services Project (388-0071) Article 5, Section 5.8(c) states "The BDG will submit to USAID and will implement a comprehensive plan for in-country training of staff at all levels of the Logistics and Supply (L&S) Unit of the FP Directorate, MOHFP".

Cause

USAID has apparently not placed enough pressure on MOHFP to comply with this provision on a timely basis.

Effect

The lack of implementation of a comprehensive in-country logistics and supply training program may cause major commodity accountability and management problems, as well as a potentially significant reduction in program results.

Recommendation

USAID should require MOHFP to submit a comprehensive in-country logistics and supply training plan as specified in the project agreement.

Managements Comments

USAID Bangladesh have provided information on training efforts which occured prior to, during and after the period of the survey. They also advised us that the Government of Bangladesh has been and is still developing a comprehensive training plan, though it was not indicated when the plan would be completed and submitted to USAID.

2. COMMODITIES DO NOT APPEAR TO BE COVERED BY INSURANCE

Condition

USAID has not ensured that commodities are insured against loss and MOHFP apparently does not have insurance for commodities against risks of loss incident to their transit to the point of their intended use.

Criteria

The Project Grant Agreement between the People's Republic of Bangladesh and the United States of America for the Family Planning and Health Services Project (388-0071) Annex 2, Article C, Section C.7(B) states "except as A.I.D. may otherwise agree in writing, the Grantee will insure, or cause to be insured, goods financed under the Grant imported for the Project against risks incident to their transit to the point of their use in the Project; such insurance will be issued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indemnification received by the Grantee under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the Grantee for the replacement or repair of such goods. Any such replacement will be of source and origin of countries listed in A.I.D. Geographic Code 935 as in effect at the time of replacement, and, except as the Parties may agree in writing, will be otherwise subject to the provisions of the Agreement".

Cause

Although it appears USAID is aware of the violation, USAID has apparently not taken the necessary steps to enforce this provision on MOHFP.

Effect

Without adequate insurance coverage of commodities, any risk of loss would be borne either by MOHFP, USAID or both which could have an unnecessary financial impact on project costs.

Recommendation

USAID should require the MOHFP to obtain full value insurance for commodities against risks of loss incident to their transit to the point of their intended use.

2 COMMODITIES DO NOT APPEAR TO BE COVERED BY INSURANCE (Continued)

Managements Response

USAID Bangladesh has informed us that they are seeking general guidance from AID Washington General Counsel and ST/POP/CPSD as to the insurance cover requirements of procured and imported commodities. A specific question as to the responsibilities of the Government of Bangladesh for the insurance of commodities being transported within Bangladesh is included in the request for general guidance.

Auditors Response

Our concern was whether the commodities were:-

a) being insured whilst in transportation; and

b) whether the Government of Bangladesh were providing the required insurance as stipulated by the agreement.

21a

E X H I B I T S

EXHIBIT A

During the course of the Audit Survey, the following warehouses, storerooms, upazilas and service outlets were visited :-

- o central warehouse in Dhaka;
- o regional warehouse in Bogra;
- o district storerooms in Dhaka, Bogra, Dinajpur, Jessore and Manikganj;
- o upazilas:
  - Dhaka
    . Mirpur Thana and Tejgaon Thana
  - Bogra
    . Bogra Sadar and Sherpur
  - Dinajpur
    . Dinajpur Sadar and Parbatipur
  - Jessore
    . Jessore Sadan and Chowgacha
  - Manikganj
    . Manikganj Sadar and Shivalaya
- o service outlets:
  - Pathalia
  - Matuail
  - Kawandia

EXHIBIT B

RECONCILING DIFFERENCES BETWEEN LMIS REPORTS AND PHYSICAL COUNTS

	LMIS VS PI
1985	
Condoms	(5.3) million pieces
Injectables	(38.9) thousand pieces
Pills	1.5 million pieces
IUDS	(72) thousand pieces
1986	
Condoms	(4.9) million pieces
Injectables	(91.7) thousand pieces
Pills	(2.5) million pieces
IUDS	(131.7) thousand pieces
1987	
Condoms	2.4 million pieces
Injectables	16 thousand pieces
Pills	913 thousand pieces
IUDS	(67) thousand pieces

Figures in brackets represent shortages in physical counts when compared with LMIS figures.

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
Dhaka, Bangladesh

December 11, 1988

COOPERS & LYBRAND
14 DEC 1988
Ans'd

MEMORANDUM

TO: Rig/A/Singapore

FROM: Priscilla M. Boughton, Director

SUBJECT: USAID Response to the Audit Survey of Commodity Control and Auditors' Report on Compliance with Agreement Terms and Applicable Laws and Regulations.

The USAID Mission has made a major commitment to assist the Bangladesh Government (BDG) to meet its goal of strengthening and expanding its family planning (FP) program; both governments believe this to be critical to national economic and social development. A weak contraceptives procurement and distribution system will result in a low-performing, ineffective FP program. An inadequate and interrupted supply of contraceptives leads to serious client dissatisfaction, high drop-out rates, unwanted pregnancies, low worker morale, and lack of public faith in and acceptance of the program.

Additionally, other program inputs are needlessly wasted when a constant supply of contraceptives throughout the distribution system is not available. These other inputs include educational media campaigns and materials; the activities of well-trained staff including field workers and educators and counselors; and the expensive infrastructure of transportation, clinics, hospitals, and reporting systems. An effectively functioning contraceptives logistics system is clearly a prerequisite to a successful FP program.

USAID has been well aware that the national FP program in Bangladesh has had a variety of problems, including logistics problems. This is also recognized by both the BDG and other donors. These problems have been clearly identified and defined by USAID and the BDG through numerous studies, audits, evaluations and program experience with the Family Planning Services Project (388-0050) which began in 1981. In fact, these efforts, plus extensive discussions with the BDG and other donors, formed the basis for the design of the new Family Planning and Health Services Project (FPHSP 388-0071), 1987-92.

There have been major improvements to the contraceptives logistics system over the last few years with the assistance of USAID and other donors, and with the cooperation and participation of the BDG. Since his arrival in October 1984,

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USAID's Logistics Management Advisor has developed and supervised three annual rounds of a National Physical Inventory of Contraceptives, Surgical Equipment and Drugs, and MCH materials; organized a Logistics Management Information System for the Central Warehouse (including installation of a microcomputer, development of software programs, and training in their use); organized the revision, translation, and printing of the MOHFP Supply Manual; organized and implemented logistics training for 1100 storekeepers and field officers; analyzed annual contraceptive requirements and prepared and processed AID commodity procurements; monitored shipping and receipt of AID-procured commodities in country on behalf of the MOHFP and USAID; monitored distribution of USAID and other donor-funded commodities; and coordinated development of an Upazila Storeroom renovation and construction program. In addition, serious donor coordination efforts were initiated; some MOHFP policies were examined and changed; and commodity needs projection techniques were improved. Problems still remain, however, improvements can only be brought about in a logical, phased fashion as planned over the life of the FPHSP, that is, between 1987 and 1992, and in coordination with other donor assistance in commodities logistics management.

The FPHSP, 388-0071, was designed and is being implemented to do just that through a major USAID Mission buy-in to the Family Planning Logistics Management Project of John Snow, Inc., Washington, D.C., USA, a centrally-established project of the Office of Population, AID, Washington. Adding to this major initiative by the MOHFP and USAID (since the need to establish the subproject was fully discussed with and agreed to by the BDG under the FPHSP Grant Agreement between the two governments) are the project efforts of other donors and the BDG which are intended to improve the national family planning program, and specifically the contraceptives logistics and distribution system.

One specific strategy that USAID had planned for in the FPHSP paper was to request this very audit. We believe that the recommendations from this audit will help us and the BDG make additional adjustments and improvements to the system, which can be integrated into the 1989-92 work program.

It is with this strategy in mind that USAID offers the following response to specific audit recommendations.

25

Appendix 2

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