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ISA 68267

**NON-FEDERAL AUDIT REPORT OF  
THE FAMILY PLANNING SERVICES AND  
TRAINING CENTER UNDER THE  
FAMILY PLANNING AND  
HEALTH SERVICES PROJECT**

**AUDIT REPORT NO. 5-388-90-06-N**

**SEPTEMBER 10, 1990**

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**Expenditures claimed were properly supported. Only \$360 in questionable costs needed to be recovered. However, improvements were needed in the internal controls for receipts and payments, the segregation of duties, the inventory procedures for contraceptives and furniture, and the performance of internal audits. In addition, more complete compliance was required for certain regulations.**

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

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September 10, 1990

**MEMORANDUM FOR:** Malcolm Purvis  
Acting Mission Director, USAID/Bangladesh

**FROM:**   
James B. Durnil, RIG/A/Singapore

**SUBJECT:** Non-Federal Audit of the Family Planning Services and Training Center Under the Family Planning and Health Services Project in Bangladesh (388-0071) Audit Report No. 5-388-90-06-N

This report presents the results of a non-Federal financial audit of the Family Planning Services and Training Center (FPSTC) funded under the Family Planning and Health Services Project in Bangladesh. The accounting firm of Price Waterhouse, India performed the audit.

FPSTC is a nonprofit governmental organization actively involved in assisting the Government of Bangladesh to improve the coverage and quality of family planning services. The primary objective of FPSTC is to promote local family planning non-governmental organizations and to extend systematic and sustained financial and technical assistance to such organizations. From 1987 to June 30, 1989, USAID/Bangladesh has granted a total of \$2,440,000 to FPSTC.

The audit objectives were to (1) report on the fairness of FPSTC's fund accountability statement for the period from October 1, 1987 through September 30, 1989, (2) evaluate the system of internal controls, and (3) determine compliance with applicable laws, regulations, and agreement terms. The audit period was from October 11, 1987 through September 30, 1989, and the audit covered \$1,326,539 (Taka 42,712,813) in funds provided to FPSTC.

Price Waterhouse concluded that the FPSTC's fund accountability statement fairly presents the receipts and expenditures as of September 30, 1989, except for the following:

- FPSTC prepares the statement on the cash basis, which is a comprehensive basis for accounting but is not in accordance with generally accepted accounting principles (see page 7).
- The budget line item expenses included questioned costs totalling \$358 (Taka 11,518) (see page 16).

**In its report on Internal Controls, Price Waterhouse concluded that conditions exist that would result in more than a low risk that errors or irregularities in amounts that could be material may occur and not be detected in a timely manner. The following six findings were reported:**

- **Deficiencies in the procedures for the payment system (see page 20).**
- **Deficiencies in the procedures for recording receipts (see page 22).**
- **Need to segregate duties (see page 23).**
- **Inadequate storage available for contraceptive stocks (see page 25).**
- **Need to improve the internal audit system (see page 26).**
- **Need to strengthen control over subgrantees (see page 28).**

**In the opinion of Price Waterhouse, FPSTC had generally complied with the agreement's terms, applicable laws, and regulations. However, two noncompliance issues were noted. These issues were taxes collected from employees that were not reported to the Government of Bangladesh on a timely basis and fees for training courses that were not included in the Fund Accountability Statement.**

**The draft report was discussed with both USAID/Bangladesh and FPSTC representatives. Their comments (Appendix 1) were taken into consideration by the auditors in preparing the attached final report. Both USAID/Bangladesh and FPSTC generally agreed with the findings and indicated corrective action would be taken with respect to implementation of certain control and compliance issues.**

**The Price Waterhouse report contains eight recommendations. We have summarized the most significant points into three recommendations. While the Mission will want to ensure all applicable recommendations are implemented, only the following three recommendations will be included in the Office of the Inspector General's audit recommendation follow-up system.**

#### **Recommendation No. 1**

**We recommend the USAID/Bangladesh recover the \$358 (Taka 11,518) in questionable costs.**

#### **Recommendation No. 2**

**We recommend the USAID/Bangladesh ensure that FPSTC improve its internal controls by establishing/implementing procedures for:**

- (a) Identifying paid invoices.**

- (b) Recording in a register all receipts prior to deposit.**
- (c) Reallocating duties among existing personnel so that incompatible functions are segregated, and for making arrangements for suitable storage space for contraceptives.**
- (d) Scheduling internal audits on a more regular basis, extending audits to all the important financial and operational areas, and maintaining audit programs and workpapers.**
- (e) Reporting subgrantees service fees, identifying and physically verifying contraceptives and furniture received by the subprojects, and cancelling duplicate bills paid by the subprojects.**

### **Recommendation No. 3**

**We recommend the USAID/Bangladesh ensure that FPSTC complies with regulations for:**

- (a) Depositing income taxes.**
- (b) Reporting fees from outside participants to USAID.**

**Based upon the Mission's comments to the draft report, recommendation 1, 2a, and 3b are resolved and will be closed when the corrective action has been completed. Recommendations 2b, 2c, 2d, 2e, and 3a are resolved and will be closed upon report issuance.**

**Please advise this office within 30 days of the action planned or taken to implement the open recommendation.**

**Thank you for the cooperation and courtesy extended to Price Waterhouse and RIG/A/Singapore's representative during the audit.**

**FAMI**

**SUPPORT OF USAID / BANGLADESH'S  
FAMILY PLANNING AND HEALTH SERVICES  
PROJECT NO 388-0071**

**AUDITORS REPORT**

***Price Waterhouse***



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## *Price Waterhouse*



Mr. James B. Durnil,  
Regional Inspector General For Audit,  
U.S. Agency For International Development,  
Singapore.

Dear Mr. Durnil,

This report presents the results of our financial and compliance audit in respect of funds provided to the Family Planning Services and Training Center (FPSTC) in support of USAID/Bangladesh's Family Planning and Health Services Project No.388-0071 for the period 1st October 1987 to 30th September 1989, which corresponds to the period indicated in the related Project Implementation Letter (PIL) No 006.

### **BACKGROUND**

Bangladesh is one of the most densely populated countries in the world. The Government of Bangladesh (BDG) faces severe constraints in its efforts to implement an effective family planning program. USAID / Bangladesh recognizes these constraints and the importance of improving the coverage and quality of family planning services as a principal means of sustaining development in Bangladesh. To assist in this development, USAID / Bangladesh has financed family planning projects.

USAID's assistance supports the national family planning and maternal and child health programs. The Family Planning and Health Services Project (FPHSP) (No.388-0071) is a seven year effort authorized at \$ 176 million which is due to end 30th September 1994. USAID/Bangladesh implements this project through a grant to the BDG and grants to various non-governmental organizations (NGOs), one of which is the Family Planning Services and Training Center (FPSTC). The FPSTC was established by the Ministry of Health and Family Planning in 1978 as the executive agency of the Family Planning Council of Voluntary Organizations. Its primary objective is to promote local level NGOs and to extend systematic and sustained financial and technical assistance to the NGOs.

Since 1987, USAID has obligated a sum of U.S.\$2,440,000 to FPSTC. The most recent amendment to the project grant agreement (No.388-0071) was dated 24th May 1988. Procedures for financial assistance to FPSTC were specified in Project Implementation Letters issued by USAID/Bangladesh. The purpose of financing FPSTC is to continue and expand activities in the following areas :

- Financing of Subprojects
- Short - Term Training of FPSTC staff and Project Coordinators at in-country, Asian Regional and U.S. Institutions
- News letter
- Contraceptive distribution
- Fair - cum - conference
- Management systems for better project monitoring and evaluation
- Exchange of information and ideas between BDG and NGOs and among NGOs

As of 30th June 1989, USAID/Bangladesh obligated U. S. \$2,440,000 to FPSTC for this agreement. About U.S.\$ 1,304,000 has been expended (other than on short-term training) under this agreement during the period 1st October 1987 to 30th September 1989.

#### **AUDIT OBJECTIVES AND SCOPE**

A financial and compliance audit was performed in accordance with generally accepted auditing standards enunciated by AICPA and U.S. Government Auditing Standards set out in the U.S. General Accounting Offices " Yellow Book " titled "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1988 revision). The audit included appropriate tests to determine if funds and / or commodities were being properly accounted for and used as directed by the Agreement and other applicable program documents and the laws of Bangladesh. The principal objectives of the audit were to determine whether :

**FPSTC's Fund Accountability Statement relating to Family Planning and Health Services Project (No. 388-0071) fairly presented the receipts and expenditure for the period from 1st October 1987 to 30th September 1989 in conformity with the terms of the Project Grant Agreement and PIL and identify any costs which were not fully supported with adequate records or which were not allowable, reasonable or allocable under the terms of the Agreement.**



- FPSTC's internal accounting controls were adequate for A. I. D. purposes.
- FPSTC had complied with applicable laws, regulations and agreement terms.

Broadly, the audit was performed using uniform worldwide methodology of Price Waterhouse as documented in the Audit Guidance Series (AGS) produced by the Audit Research and Methods Group of Price Waterhouse World Firm ( PWWF ).

## **RESULTS OF THE AUDIT**

### **Fund Accountability Statement**

The scope of our work was limited to the examination of the Fund Accountability Statement of FPSTC. In our opinion, except for Finding 1 with regard to Questionable FPSTC Expenditure, the Fund Accountability Statement presents fairly, the receipts and expenditure of funds provided to the Family Planning Services and Training Center (FPSTC) in support of USAID/Bangladesh's Family Planning and Health Services Project No.388-0071.

### **Internal Accounting Controls**

Our study and evaluation of the system of internal accounting controls of FPSTC indicated the following deficiencies :

- There were certain lapses, as specified in the report, in the internal control system regarding payment procedures and recording of funds received from USAID/others.
- There was lack of segregation of duties with respect to certain incompatible functions relating to recording and custody of contraceptive stocks.
- The internal audit system of FPSTC was not entirely adequate.
- FPSTC's control over subgrantees needs to be strengthened.

We believe the above conditions could result in more than a relatively low risk that errors or irregularities in amounts that could be material in relation to the Fund Accountability Statement may occur and not be detected in a timely manner. Because our study and evaluation of the system of internal controls was made for the limited purposes of the audit, it would not necessarily disclose all material weaknesses in the system and therefore, we do not express an opinion on the system of internal controls of FPSTC taken as a whole.

### **Compliance with Agreement terms**

Based on the results of our audit, except for certain non-compliances as discussed in Finding 1 of the compliance section, we are of the opinion that FPSTC complied with the Agreement terms, PIL and applicable laws and regulations. Nothing came to our attention that caused us to believe that untested items were not in compliance with Agreement terms, PIL and applicable laws and regulations.

### **FPSTC MANAGEMENT COMMENTS ON OUR FINDINGS AND RECOMMENDATIONS**

FPSTC officials were generally in agreement with our findings and recommendations. They have advised us of the various measures which are being or have been taken to rectify the deficiencies and areas of non-compliance which were highlighted during our audit.

### **USAID/BANGLADESH COMMENTS**

USAID/Bangladesh have informed us of the various actions which have been or are being initiated in response to our findings and recommendations. Their comments are set out in Appendix 1.

28th August, 1990

*Price Waterhouse*

PRICE WATERHOUSE  
CHARTERED ACCOUNTANTS



*Price Waterhouse*



**FAMILY PLANNING SERVICES AND TRAINING CENTER  
SUPPORT OF USAID/BANGLADESH'S FAMILY PLANNING AND HEALTH SERVICES  
PROJECT NO. 388 - 0071**

**AUDITORS' REPORT ON THE FUND ACCOUNTABILITY STATEMENT**

Mr. Alfred M. Clavelli,  
Acting Regional Inspector General For Audit,  
U.S. Agency For International Development,  
Singapore.

We have examined the Fund Accountability Statement for the period 1st October 1987 to 30th September 1989 of the funds provided to the Family Planning Services and Training Center (FPSTC) in support of USAID / Bangladesh's Family Planning and Health Services Project (No. 388-0071). Our examination was made in accordance with generally accepted auditing standards and the U. S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1988 Revision), and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary under the circumstances.

As described in Note 2(c) on Schedule 3, this Fund Accountability Statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, and to the best of our information and according to the explanations given to us, the Fund Accountability Statement, except for Finding 1 with regard to Questionable FPSTC Expenditure, and read with the notes attached thereto, fairly presents the receipts and expenditure of funds provided to FPSTC in support of USAID / Bangladesh's Family Planning and Health Services Project No. 388 - 0071 for the period 1st October, 1987 to 30th September, 1989 prepared on the basis of accounting policies described in Note 2 to the Fund Accountability Statement.

As part of our examination, we identified TK. 11,518 (U.S.\$358) as questioned cost, which we believe should be recovered. (See Finding 1 enclosed).

**This report is intended solely for the use of FPSTC and USAID. This restriction is not intended to limit distribution of this report which, upon acceptance by the A.I.D. Office of the Inspector General, is a matter of public record.**

*Price Waterhouse*

**PRICE WATERHOUSE  
CHARTERED ACCOUNTANTS**

**5th June ,1990**



**FAMILY PLANNING SERVICES AND TRAINING CENTER  
SUPPORT OF USAID/BANGLADESH'S FAMILY PLANNING AND HEALTH SERVICES  
PROJECT NO. 388 - 0071**

**FUND ACCOUNTABILITY STATEMENT  
FOR THE PERIOD 1st OCTOBER 1987 TO 30th SEPTEMBER 1989**

SOURCE OF FUNDS	SCHEDULE REFERENCE	AMOUNT	
		TK.	US \$
Contributions from USAID		42,712,813	1,326,539
<b>TOTAL</b>		<u>42,712,813</u>	<u>1,326,539</u>
<b>APPLICATION OF FUNDS</b>			
Budget categorywise expenses	1	40,484,992	1,257,349
Amount withdrawn for Project 388-0050 (subsequently reimbursed by USAID/ Bangladesh)		741,537	23,030
Closing Balances as at 30th September 1989 (net)	2	1,486,284	46,160
<b>TOTAL</b>		<u>42,712,813</u>	<u>1,326,539</u>
Notes on Fund Accountability Statement	3		

5th June ,1990

*Price Waterhouse*

PRICE WATERHOUSE  
CHARTERED ACCOUNTANTS



**SCHEDULE 1**

**FAMILY PLANNING SERVICES AND TRAINING CENTER**

**SUPPORT OF USAID/BANGLADESH'S FAMILY PLANNING AND HEALTH SERVICES  
PROJECT NO 388-0071**

**SCHEDULES TO THE FUND ACCOUNTABILITY STATEMENT**

**SCHEDULE OF EXPENDITURE**

	<b>AMOUNT</b>	
	<b>TK.</b>	<b>U.S. \$</b>
<b>Budget categorywise expenses for the period 1st October 1987 to 30th September 1989</b>		
Family Planning Subprojects	30,781,170	955,976
News letter	783,480	24,333
Commodity Distribution	342,893	10,649
Vehicle/ Equipment	119,147	3,700
Program Management Cost (Annexure A)	8,458,302	262,691
	<u>40,484,992</u>	<u>1,257,349</u>



**SCHEDULE 2**

**FAMILY PLANNING SERVICES AND TRAINING CENTER**

**SUPPORT OF USAID/BANGLADESH'S FAMILY PLANNING AND HEALTH SERVICES  
PROJECT NO 388-0071**

**SCHEDULES TO THE FUND ACCOUNTABILITY STATEMENT**

**SCHEDULE OF CLOSING BALANCES AS AT 30TH SEPTEMBER 1989**

	AMOUNT	
	TK.	U.S.\$
<b>Closing Balances as at 30th September 1989 (net)</b>		
Cash in hand (including unbooked traveling advances)	4,608	143
On Current Deposit Account with Uttara Bank	1,490,182	46,281
Income tax deducted from employees' salaries (included under Program Management Cost), not deposited	( 8,506 )	( 264 )
	<u>1,486,284</u>	<u>46,160</u>



**FAMILY PLANNING SERVICES AND TRAINING CENTER**  
**SUPPORT OF USAID/BANGLADESH'S FAMILY PLANNING AND HEALTH SERVICES**  
**PROJECT NO.388 - 0071**

**ANNEXURE TO THE FUND ACCOUNTABILITY STATEMENT**  
**ANNEXURE OF PROGRAM MANAGEMENT COST**

	AMOUNT	
	TK.	U.S. \$
Salaries	4,926,186	152,993
Travel and Per Diem	454,553	14,117
Office Rent	965,500	29,986
Fuel	175,790	5,460
Transport and Equipment maintenance	250,359	7,775
Printing	171,285	5,320
Bank Charges	59,702	1,854
Utilities (gas, electricity and water)	191,527	5,948
Telephone and Telegram	199,555	6,198
Postage	81,896	2,543
Advertisement	26,109	811
Training	309,643	9,617
Workshop/Conference	307,542	9,551
Liveries	22,371	695
Cleaning materials	90,247	2,803
Legal Consultant's fees	27,245	846
Audit fees of Project 388-0050	70,500	2,190
Stationery	141,479	4,394
Furniture	121,269	3,766
	<u>8,592,758</u>	<u>266,867</u>
Less relating to Project 388-0050 (item-wise break-up not being available)	<u>134,456</u>	<u>4,176</u>
	<u>8,458,302</u>	<u>262,691</u>



**NOTES ON FUND ACCOUNTABILITY STATEMENT**

**1. IDENTIFICATION AND ACTIVITY**

The Family Planning and Health Services Project (FPHSP) (No.388 - 0071) is a seven year effort authorized at \$176 million which is due to end 30th September 1994. USAID/ Bangladesh implements this project through a grant to the BDG and grants to various non-governmental organizations (NGOs), one of which is the Family Planning Services and Training Center (FPSTC). The FPSTC was established by the Ministry of Health and Family Planning in 1978 as the executive agency of the Family Planning Council of Voluntary Organizations. Its primary objective is to promote local level NGOs and to extend systematic and sustained financial and technical assistance to the NGOs.

Since 1987, USAID has obligated a sum of \$ 2,440,000 to FPSTC. The most recent amendment to the project grant agreement (No. 388-0071) was dated 24th May 1988. The purpose of financing FPSTC is to continue and expand activities in the following areas :

- Financing of Subprojects
- Short - Term Training of FPSTC staff and Project Coordinators at in-country, Asian Regional and U.S. Institutions
- Other training
- News letter
- Contraceptive distribution
- Fair-cum-conference
- Management Systems for better Project monitoring and evaluation
- Exchange of information and ideas between BDG and NGO and among NGOs.



## **SCHEDULE 3 (CONTD.)**

### **2. BASIS OF ACCOUNTING / ACCOUNTING POLICIES**

- a. Funds are provided by USAID / Bangladesh in local currency. Consequently, the books of account are maintained and the Fund Accountability Statement is expressed in Taka, the monetary unit of Bangladesh. The figures have been converted to U.S. dollars using the exchange rate prevailing on 30th September 1989 i.e. 1 U.S. \$ = TK. 32.1987.
- b. The books of account maintained by FPSTC in respect of funds granted by USAID/ Bangladesh are separate and distinct from those maintained for other funds and activities. However, separate books of account have not been maintained for the two projects 388-0050 and 388 - 0071 funded by USAID/Bangladesh. The Fund Accountability Statement for Project 388 - 0071 has been compiled on the basis of available records.
- c. Grants from USAID and all expenditure are accounted for on cash basis.
- d. Capital assets acquired out of USAID granted funds are expensed in the year of acquisition.
- e. Funds granted to subprojects are expensed on disbursement.
- f. Expenses pertaining to Short-Term training of FPSTC staff and Project Coordinators at in-country, Asian Regional and U.S. Institutions have not been reflected in the Fund Accountability Statement as these costs are directly disbursed by USAID to the training institutions. Airlines, and participants.



**FAMILY PLANNING SERVICES AND TRAINING CENTER  
SUPPORT OF USAID/BANGLADESH'S FAMILY PLANNING AND HEALTH SERVICES  
PROJECT NO 388-0071**

**FINDING 1**

**QUESTIONABLE FPSTC EXPENDITURE**

**Condition**

Budget categorywise expenses (Family Planning Subprojects) include questioned cost to the tune of TK 11,518 (U.S. \$ 358) as summarized below :

Payment voucher reference	Particulars	Amount	
		TK	U.S.\$
1507 30th July 1989	Excess refund to Family Planning International Assistance (FPIA) on transfer of a subproject under USAID grant (included in a total sum of TK.12,013 [U.S.\$373] paid to FPIA)	11,518	358

**Criteria**

Amounts should be verified before disbursements.

**Cause**

Inadequate internal check and oversight may have resulted in the above referred item of expenditure.

**Effect**

The questioned cost referred to above do not ensure preparation of an accurate Fund Accountability Statement.



### **Recommendation No.1**

**We recommend that USAID/Bangladesh require FPSTC to take appropriate measures to recover TK.11,518 (US \$.358) from FPIA.**

### **FPSTC Management Comments**

**FPIA funding to FPSTC was closed on 31st October 1988. Then FPIA appointed a local Chartered Accountant firm to audit the activities supported by them, to determine the unutilized balance lying with FPSTC and its subgrantee projects and to settle the accounts. While calculating the closing balance of subgrantee projects the auditor took the figure of Tk. 12,013.00 as closing balance of STC-007, Narsingdi. Accordingly FPSTC refunded the amount to FPIA. FPIA auditor calculated the figure on the basis of internal audit report of FPSTC. The internal audit report of STC-007 erroneously included the financial statement of STC-019, Jamalpur which showed closing balance of Tk. 12,013.00 and FPIA auditor took the figure of STC-019 as of STC-007. Actually the closing balance of STC-007 Narsingdi was Tk. 495.00. The closing balance of STC-019, Jamalpur was adjusted correctly. So, excess refund of Tk. 11,518.00 was made to FPIA.**

**Now FPSTC will communicate with FPIA Newyork regarding the questioned amount of TK.11,518.00 requesting to refund the same to FPSTC.**

**However, due care will be exercised in future in making all payments.**



*Price Waterhouse*



**FAMILY PLANNING SERVICES AND TRAINING CENTER  
SUPPORT OF USAID/BANGLADESH'S FAMILY PLANNING AND HEALTH SERVICES  
PROJECT NO. 388-0071**

**REPORT ON INTERNAL ACCOUNTING CONTROLS**

Mr. Alfred M. Clavelli,  
Acting Regional Inspector General For Audit,  
U.S. Agency For International Development,  
Singapore.

We have performed a financial and compliance non-federal audit for the period 1st October 1987 to 30th September 1989 of the funds provided to the Family Planning Services and Training Center (FPSTC) in support of USAID/Bangladesh's Family Planning and Health Services Project No. 388-0071 and have issued our report thereon dated 5th June, 1990. As part of our examination, we have made a study and evaluation of FPSTC's system of internal accounting controls to the extent we considered necessary to evaluate the system as required by the generally accepted auditing standards and the U. S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1988 Revision). The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the Fund Accountability Statement. For the purpose of this report, we have classified the significant internal accounting controls evaluated as 1) General Administration 2) Bank (receipts and disbursements) 3) Payroll 4) Procurement and 5) Internal Audit. The scope of our work was limited to the examination of the Fund Accountability Statement of FPSTC.

The management of FPSTC is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of the system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting 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.

Our study and evaluation made for the limited purpose, described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal controls of FPSTC taken as a whole. However, our study and evaluation did disclose conditions that we believe would result in more than a low risk that errors or irregularities in amounts that could be material in relation to the Fund Accountability Statement may occur and not be detected in a timely manner. The conditions which include internal control weaknesses, lack of segregation of duties, and deficiencies in the internal audit system are described in Findings 1 to 6.

This report is intended solely for the use of FPSTC and USAID. This restriction is not intended to limit distribution of this report which, upon acceptance by the A.I.D. Office of the Inspector General, is a matter of public record.

5th June, 1990

*Price Waterhouse*

PRICE WATERHOUSE  
CHARTERED ACCOUNTANTS



**FAMILY PLANNING SERVICES AND TRAINING CENTER  
SUPPORT OF USAID/BANGLADESH'S FAMILY PLANNING AND HEALTH SERVICES  
PROJECT NO. 388-0071**

**FINDINGS ON INTERNAL ACCOUNTING CONTROLS**

**FINDING 1**

**Deficiencies in system of payment procedures**

**Condition**

Original invoices are not defaced at the time of payments.

**Criteria**

Original invoices when paid should be defaced or stamped as "paid".

**Cause**

The reasons for the above referred deficiencies may be lack of understanding of control systems and procedures among personnel responsible for management and control of funds.

**Effect**

The deficiencies may result in double payments on the same invoice.

**Recommendation No. 2**

We recommend that USAID/Bangladesh require FPSTC to ensure that original invoices are defaced on payments.



### **FPSTC Management Comments**

The recommendation has already been implemented. The original invoices are now stamped as "Paid" before making payment.

### **FINDING 2**

#### **Deficiencies in procedures of recording receipts**

##### **Condition**

Checks received from USAID and others are not recorded in any Inward Mail Register/Rough Cash Book before bank lodgment.

##### **Criteria**

All receipts should be recorded before bank lodgment.

##### **Cause**

The reason for the above referred deficiency may be lack of understanding among FPSTC personnel about the implication of the same.

##### **Effect**

This may result in untimely booking of collections and bank lodgments.

#### **Recommendation No. 3**

We recommend that USAID/Bangladesh require FPSTC to ensure that all checks received are first recorded in a register with relevant details before bank lodgments.



### **FPSTC Management Comments**

The recommendation is already implemented, we have opened a Register where all check receipts are first recorded with relevant details before bank lodgment.

### **FINDING 3**

#### **Lack of segregation of duties**

##### **Condition**

The Assistant Supply Officer and Stores Assistant responsible for periodic physical verification of contraceptives are also responsible for the custody and recording thereof.

##### **Criteria**

Each of the three functions outlined above is independent of others and acts as a countercheck.

##### **Cause**

The reason for the above referred deficiency may be a lack of understanding of control systems and procedures among personnel responsible for inventory management.

##### **Effect**

This may result in discrepancies remaining undetected in stock records and/or physical inventories resulting in over or understatement of stocks.

#### **Recommendation No. 4**

We recommend that USAID/Bangladesh require FPSTC to ensure that the above functions should as far as practicable be performed independently by different individuals in order to strengthen control systems and procedures.



### **FPSTC Management Comments**

The recommendation is accepted in principle. The Job responsibilities of Asstt. Supply Officer and Store Assistant will be designed in such a way that Assistant Supply Officer will be responsible for custody and periodical physical verification of contraceptive and Store Assistant will be responsible for collection of contraceptive from Central Warehouse, distribution of contraceptives & to keep records thereof in order to ensure proper inventory management.

### **FINDING 4**

#### **Inadequate storage space for contraceptive stocks**

##### **Condition**

Our physical verification on 17th February 1990 revealed that a part of the contraceptive stocks which could not be accommodated in the store room have been kept on the floor of a garage without using dunnage.

##### **Criteria**

All stock of contraceptives should be properly stored to avoid any damage.

##### **Cause**

Lack of adequate space may have resulted in such unsatisfactory storage.

##### **Effect**

This may result in damage or deterioration to the stock of contraceptives.



### **Recommendation No. 5**

**We recommend that USAID/Bangladesh require FPSTC management to make arrangement for suitable storage.**

### **FPSTC Management Comments**

**Sufficient number of dunnages have already been procured to accommodate contraceptive stock safely in store room. Arrangement will also be made for additional space for suitable storage of contraceptives.**

### **FINDING 5**

#### **Internal Audit system of FPSTC needs to be improved**

##### **Condition**

- a. **Internal audit of FPSTC (Main Office) has been completed upto 31st March 1989. The last internal audit report pertained to the period 1st July 1987 to 31st March 1989.**
- b. **The aforesaid internal audit did not cover the following areas :**
  - **review of receipts and disbursements**
  - **review of management reports/returns**
  - **review of asset (equipment and furniture) records and results of physical verification**
- c. **Further, the internal audit program and work papers backing up the report were not available for our review.**

##### **Criteria**

**An adequate system of internal control should provide for an internal audit system commensurate with the size and nature of operations to review records on a periodic basis as an aid to management.**



**Cause**

This may have resulted from the management's informal approach to internal audit system.

**Effect**

This weakness impedes effective management control over funds and property.

**Recommendation No. 6**

We recommend that USAID/Bangladesh require the FPSTC to ensure that :

- a. internal audit is conducted more frequently at regular intervals.
- b. internal audit coverage is extended to all the important financial and operational areas.
- c. internal audit programs and work papers are maintained.

**FPSTC Management Comments**

The Internal Audit Committee has been instructed to conduct internal audit timely and in detail to cover all the important financial and operational areas and to preserve all working papers for future reference.

**FINDING 6****FPSTC's control over subgrantees needs to be strengthened****Condition**

Our examination revealed the under-mentioned deficiencies in FPSTC's control system relating to monitoring of subprojects:

- a. Service fees collected by certain subgrantees on distribution of contraceptives at the subprojects are neither accounted for nor disclosed in the financial statements submitted to FPSTC but held in separate bank accounts :



<b>Subgrantee Code / Name</b>	<b>Balances as at 30th September 1989</b>
	<b>TK.</b>
STC 035-Bangladesh Mohila Samaj Kalyan Samity, Dhaka	43,021.05 (U.S.\$ 1,336)
STC 004-Sobhanbagh Mohila Club, Dhaka	41,362.75 (U.S.\$ 1,285)
STC 031-Anirban Sangsad, Dhaka	12,010.00 (U.S.\$ 373)

- b. In the absence of identification numbers/receipt dates being marked on boxes containing contraceptives (condoms) received from FPSTC, it could not be ensured whether issues of such stocks are made on a first-in-first-out (FIFO) basis.
- c. At the time of our visit to the following subprojects in February/March 1990, documentary evidence of the physical verification of contraceptives either by FPSTC or subgrantee officials was not available for audit purpose :

STC 004-Sobhanbagh Mohila Club, Dhaka  
 STC 035-Bangladesh Mohila Samaj Kalyan Samity, Dhaka  
 STC 031-Anirban Sangsad, Dhaka  
 STC 043-Nari Kalyan Samity, Cox Bazar  
 STC 062-Mamata, Chittagong



- d. The Furniture Registers maintained at the undermentioned subprojects should also include the relevant particulars necessary for proper control over such items :

<b>Subgrantee Code / Name</b>	<b>Relevant particulars not included in Register</b>
STC 043-Nari Kalyan Samity, Cox Bazar	Cost, Date of purchase, Identification numbers
STC 062-Mamata, Chittagong	Cost, Identification numbers
STC 035-Bangladesh Mohila Samaj Kalyan Samity, Dhaka	Cost, Identification numbers
STC 004-Sobhanbagh Mohila Club, Dhaka	Identification numbers

- e. The duplicate bills accompanying the following vouchers at subproject STC 031-Aniruan Sangsad, Dhaka have not been canceled at the time of payments :

<b>No</b>	<b>Voucher Reference Date</b>	<b>Amount TK.</b>	<b>Line item</b>
1781	5th February 1989	1,060 (U.S.\$33)	Printing
1749	18th December 1988	4,800 (U.S.\$149)	Furniture
1713	12th December 1988	6,100 (U.S.\$189)	Furniture

#### **Criteria**

Establishment of effective procedures to exercise adequate control over subgrantees is a prerequisite for proper management and utilization of funds.



### **Cause**

A relative lack of awareness of the effectiveness of certain control procedures may have contributed to the inadequacies mentioned.

### **Effect**

The weaknesses referred to above increase the possibility of ineffective utilization of funds.

### **Recommendation No 7**

We recommend that USAID/Bangladesh require FPSTC to establish/implement adequate procedures to ensure that :

- a. Service fees collected by subgrantees are reported to FPSTC who in turn should report these to USAID periodically.
- b. Identification numbers/receipt dates should be marked on boxes containing contraceptives received by subprojects from FPSTC to ensure issue thereof on FIFO basis.
- c. Documentary evidence as regards physical verification of contraceptive stocks are maintained at the subprojects for audit purpose.
- d. The furniture registers maintained at the subprojects also indicate details as to cost, date of purchase and identification numbers.
- e. Duplicate bills at the concerned subproject are canceled at the time of payments.

### **FPSTC Management Comments.**

- a. All subgrantee projects have been instructed to regularly report the income from service charge in their quarterly financial report submitted to FPSTC. FPSTC will report back to USAID.
- b. The subgrantees will be instructed to put identification numbers/receipt dates on boxes containing contraceptives received from FPSTC so as to ensure issue of such stocks on FIFO basis.



- c. Asstt. Supply Officer under commodity distribution scheme of FPSTC visit the subproject and check the contraceptive record and stores. He has also been advised to make detail verification of contraceptives stock & store and to certify the stock position. Subprojects will keep the record of verification certificate for future reference.**
- d. The subgrantees will be instructed to include the relevant particulars in the Furniture Register maintained at the subprojects.**
- e. The concerned subgrantee will be instructed to cancel all duplicate bills at the time of payments.**



*Price Waterhouse*



**FAMILY PLANNING SERVICES AND TRAINING CENTER  
SUPPORT OF USAID/BANGLADESH'S FAMILY PLANNING AND HEALTH SERVICES  
PROJECT NO.388 - 0071**

**REPORT ON COMPLIANCE WITH AGREEMENT TERMS  
AND APPLICABLE LAWS AND REGULATIONS**

Mr. Alfred M. Clavelli,  
Acting Regional Inspector General For Audit,  
U.S. Agency For International Development,  
Singapore.

We have examined the Fund Accountability Statement for the period 1st October 1987 to 30th September 1989 of the funds provided to the Family Planning Services and Training Center (FPSTC) in support of USAID/Bangladesh's Family Planning and Health Services Project (388-0071) and have issued our report thereon dated 5th June, 1990.

The scope of our work was limited to the examination of the Fund Accountability Statement of FPSTC. Our examination included such tests of compliance with Agreement terms and applicable laws and regulations as we considered necessary in the circumstances, and as required by the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1988 Revision).

In our opinion, subject to our observation as described in Finding 1 of this report, FPSTC had complied with the Agreement terms and applicable laws and regulations. Nothing came to our attention in connection with our examination that caused us to believe that FPSTC was not in compliance with the agreement terms and applicable laws and regulations for those transactions not tested.

This report is intended solely for the use of FPSTC and USAID. This restriction is not intended to limit distribution of this report which, upon acceptance by the A. I. D. Office of the Inspector General, is a matter of public record.

5th June, 1990.

*Price Waterhouse*  
PRICE WATERHOUSE  
CHARTERED ACCOUNTANTS

**FAMILY PLANNING SERVICES AND TRAINING CENTER  
SUPPORT OF USAID/BANGLADESH'S FAMILY PLANNING AND HEALTH SERVICES  
PROJECT NO. 388 - 0071**

**REPORT ON COMPLIANCE WITH AGREEMENT TERMS  
AND APPLICABLE LAWS AND REGULATIONS**

**FINDING 1**

**FPSTC did not comply with certain PIL terms and applicable laws and regulations.**

**Condition**

Our examination revealed the following instances of non-compliance with PIL terms/applicable laws and regulations :

- a. Tax deducted from salaries in June 1989 amounting to TK. 8,506 (U.S. \$ 264) has not been deposited with the appropriate authorities till February 1990 though the stipulated time limit is seven days from the date of deduction.
- b. Fees collected for training courses TK.209,000 (U.S. \$ 6491) and related costs of stationery and printing TK. 50,398 (U.S. \$ 1,565) have not been included in the Fund Accountability Statement. As per the provisions of Office of Management and Budget Circular No. A110, Attachment D the recipient should account for the program income as directed under the above Circular.

**Criteria**

All the agreement and PIL terms/applicable laws and regulations should have been strictly complied with or should have been negotiated at the appropriate level for ratification/waiver.



### **Cause**

**FPSTC did not ensure compliance with Agreement and PIL terms/applicable laws and regulations.**

### **Effect**

**In view of the non-compliance issues discussed above, USAID cannot be assured that FPSTC exercises adequate control over funds granted by it and property acquired out of such funds. Further, violation of tax laws may attract interest liability, where tax has been deducted from salaries but not deposited.**

### **Recommendation No.8**

**We recommend that USAID / Bangladesh require FPSTC to ensure that :**

- a. Income tax deducted on salaries is deposited with the appropriate authorities and in future care is taken to deposit tax deducted within the specified time period.**
- b. Fees collected from outside participants are reported to USAID periodically.**

### **FPSTC Management Comments**

- a. Income Tax for the income year 1988-89 was erroneously estimated excess. Tax deducted monthly was deposited to Government treasury regularly till May 1989. Tax deducted from salary for the month of June 1989 was supposed to be deposited after assessment of Tax by the Tax authority if it became due or otherwise to adjust with next year Income Tax. However, in future all income tax will be estimated correctly and deposited timely.**
- b. FPIA also funded FPSTC activities party till 31st October 1988, FPIA Mod.# 12 started from March 1986 provided for collection of training fees by imparting training to other NGOs and to keep the same in separate bank account. FPSTC regularly reported the income from training fees to FPIA in its quarterly and annual report till 31st October 1988. Now as per requirements of USAID, income from training fees will be regularly reported to USAID. All income realised from training fees have been kept intact in separate bank account.**



## **LIST OF REPORT RECOMMENDATIONS**

### **Fund Accountability Statement**

1. **USAID / Bangladesh should require FPSTC to take appropriate measures to recover TK.11,518 (US.\$ 358) from FPIA.**

### **Internal Accounting Controls**

**USAID / Bangladesh should require FPSTC to develop internal accounting controls to ensure that :**

2. **Original invoices are defaced on payments.**
3. **All checks received are first recorded in a register with relevant details before bank lodgments.**
4. **Incompatible functions are effectively segregated by reallocation of duties among existing personnel.**
5. **Arrangements are made for suitable storage.**
6. **Internal Audit of FPSTC (Main Office)**
  - a. **Internal audit is conducted more frequently at regular intervals.**
  - b. **Internal audit coverage is extended to all the important and operational areas.**
  - c. **Internal audit programs and work papers are maintained.**
7. **USAID/ Bangladesh should require FPSTC to establish/implement adequate procedures to ensure that :**
  - a. **Services fees collected by subgrantees are reported to FPSTC who in turn reports these to USAID periodically.**
  - b. **Identification numbers/receipt dates are marked on boxes containing contraceptives received by subprojects from FPSTC to ensure issue thereof on FIFO basis.**

- c. **Documentary evidence of physical verification of contraceptive stocks are maintained at the subprojects for audit purpose.**
- d. **The furniture registers maintained at the subprojects also indicate details as to cost, date of purchase and identification numbers.**
- e. **Duplicate bills at the concerned subproject are canceled at the time of payments.**

**Compliance with Agreement terms and applicable laws and regulations.**

- 8. **USAID/Bangladesh should require FPSTC to ensure that :**
  - a. **Income tax deducted on salaries is deposited with the appropriate authorities and in future care is taken to deposit tax deducted within the specified time period.**
  - b. **Training fees collected from outside participants are reported to USAID periodically.**

UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Dhaka, Bangladesh

APPENDIX - I

July 16, 1990

MEMORANDUM

To: Whitney Glynn, A/RIG/A/Singapore 

From: Malcolm J. Purvis, Acting Director, USAID/Bangladesh

Subject: Mission Comments on Price Waterhouse's Draft Non-Federal Audit (NFA) Report of the Family Planning Services and Training Center under USAID Project No. 388-0071

Attached are the Mission comments and responses to the eight recommendations of the subject audit report.

As agreed during the exit conference held in USAID/Bangladesh on June 5, 1990, all the recommendations of the draft report have been considered as resolved and majority of them (Recommendation Nos. 2, 3, 4, 5, 6, 7b, 7c, 7d, and 8a) should be closed upon issuance of the final NFA report based on Mission comments and supporting evidence which are now attached with this memorandum.

The Mission comments have been prepared based upon review of FPSTC management comments to the recommendations of the subject draft report, subsequent review by Mission staff of FPSTC actions and submission by FPSTC to USAID of required documentation evidencing implementation of a number of recommendations and actions planned or taken with regard to other recommendations. As you will note from the attached comments, some actions are still ongoing, particularly in connection with Recommendation Nos. 1, 7a, 7e, and 8b, which may take another month or two before they are complete and Mission can request closure on them. However, it is expected that by the time the subject final NFA Report is issued by RIG/A/SIG and Mission comments become due on the final report, most of the recommendations considered resolved upon issuance of the final report but not closed, can be closed. The Mission will keep you informed of progress upon receiving the final report.

For your information, a copy of the cover memorandum, comments and supporting evidence has been forwarded to Price Waterhouse, India so that the subject NFA Report can be finalized.

Attachment: as stated.

Mission Comments to the Draft NFA Audit Report on FPSTC

Recommendation No. 1:

USAID/Bangladesh require FPSTC to take appropriate measures to recover Tk. 11,518 (US \$358) from FPIA.

Mission Comments:

Although FPSTC was awaiting the issuance of the final NFA report before initiating formal actions to recover the amount from FPIA, in a recent meeting with the concerned Mission Staff, FPSTC was requested to take immediate action on this issue. As a result, FPSTC issued a Letter (Ref: STC/AC/General -26/Part-2/90/4070 dated July 8, 1990) to FPIA requesting a refund of Tk. 11,518 as early as possible. Mission will update RIG/A/SIG as FPSTC receives a response and/or refund from FPIA. FPSTC have also assured that due care will be exercised in future to avoid repetition of excess payments.

Recommendation No. 2:

USAID/Bangladesh require FPSTC to ensure that original invoices are defaced on payments.

Mission Comments:

The Mission has received documentary evidence including copy of appropriate FPSTC Office Order (dated July 8, 1990) which directs concerned FPSTC Finance and Accounts staff that all original invoices are defaced on payments. The original invoices are now marked 'Paid' before making payments as noted in FPSTC's voucher supporting invoices.

Recommendation No. 3:

USAID/Bangladesh require FPSTC to ensure that all checks received are first recorded in a register with relevant details before bank lodgments.

Mission Comments:

The Mission has received documentary evidence including copy of appropriate FPSTC Office Order (dated July 8, 1990) requiring that all checks received from USAID and other sources first be recorded by concerned FPSTC Finance and Accounts staff in a register with relevant details before bank lodgement. FPSTC has provided USAID a copy of a page from the register which attests to implementation of the recommendation.

Recommendation No. 4:

USAID/Bangladesh require FPSTC to ensure that incompatible functions should as far as practicable be performed independently by different individuals in order to strengthen control systems and procedures.

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Mission Comments:

As indicated in FPSTC's Management comment to the draft report, FPSTC has segregated the responsibilities of concerned individuals to perform tasks which were incompatible as they it related to the management of store functions. The incompatible functions are now being performed by two different employees independent of each other to strengthen control systems and procedures. A copy of an Office Order from FPSTC is attached in this regard. The Office Order separates, reassigns and spells out the job responsibilities of the concerned employees.

Recommendation No. 5:

USAID/Bangladesh require FPSTC management to make arrangement to suitable storage.

Mission Comments:

In view of FPSTC Management Comments, the Mission Controller's Office staff visited FPSTC to physically verify the measures taken by FPSTC with regard to suitable storage for contraceptive stock. The measures taken by FPSTC were found adequate and satisfactory as documented in an internal Mission memorandum (copy attached).

Recommendation No. 6:

USAID/Bangladesh require the FPSTC to ensure that:

- a. internal audit is conducted more frequently at regular intervals.
- b. internal audit coverage is extended to all the important financial and operational areas.
- c. internal audit programs and work papers are maintained.

Mission Comments:

The Mission has received a copy of an Office Order (dated July 8, 1990) from FPSTC which directs concerned FPSTC Internal Audit Committee/members to take on additional responsibilities including increasing the frequency of internal audit to every six months as against the previous yearly internal audit, to extend audit coverage to all important financial and operational areas, and to retain all working papers and work plans.

Recommendation No. 7:

USAID/Bangladesh require FPSTC to establish/implement adequate procedures to ensure that:

- a. Service fees collected by subgrantees are reported to FPSTC who in turn should report these to USAID periodically.
- b. Identification numbers/receipt dates are marked on boxes containing contraceptives received by subprojects from FPSTC to ensure issue thereof on FIFO basis.
- c. Documentary evidence as regards physical verification of contraceptive stocks are maintained at the subprojects for audit purpose.

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- d. The furniture registers maintained at the subprojects also indicate details as to cost, date of purchase and identification numbers.
- e. Duplicate bills at the concerned subproject are cancelled at the time of payments.

Mission Comments:

As indicated in FPSTC's Management comment to the draft report, FPSTC has taken appropriate actions with regard to all subparts of the Recommendation No. 7.

With regard to subpart 7a, directives in Bengali (copy retained at the Mission) have been issued by FPSTC (dated April 9, 1990) to all subprojects, instructing all subprojects to quarterly report the service fees/charges collected to FPSTC so that these can be subsequently reported to USAID on a quarterly basis. The Mission is expecting to receive information in this regard periodically from FPSTC, starting with the next regular quarterly report due to USAID.

Regarding subpart 7b, FPSTC also has issued directives to all subprojects to mark contraceptive boxes received from FPSTC with identification numbers and receipt dates to facilitate issuance of items on FIFO basis.

With regard to subpart 7c, the Mission agrees that the steps taken by FPSTC, as indicated in their Management comments to the draft report, are adequate. In addition, the Mission also is in receipt of a copy of a physical verification sheet certified by FPSTC Asst. Supply Officer and concerned subproject officials as proof of verification. A copy of such certified sheets are now retained at subprojects for audit purposes.

Regarding subpart 7d, FPSTC have issued specific directives to all subprojects to include in the furniture register details, as to cost, date of purchase and identification numbers. Mission has received a copy of the directive issued to all subprojects (copy attached).

For subpart 7e, the Mission is in receipt of a copy of FPSTC's letter (dated June 6, 1990 and written in Bengali) to the concerned subproject that specifically requests the subproject to cancel duplicate bills at the time of payments and also to update actions taken to cancel duplicate bills which were not cancelled earlier. When subproject response is made available to USAID by FPSTC, the Mission will advise RIG/A/SIG to close the recommendation.

Recommendation No. 8:

USAID/Banladesh require FPSTC to ensure that:

- a. Income tax deducted on salaries is deposited with the appropriate authorities and in future care is taken to deposit tax deducted within the specified time period.
- b. Fees collected from outside participants are reported to USAID periodically.

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**Mission Comments:**

As indicated in FPSTC's Management comment to the draft report, FPSTC has taken appropriate actions with regard to the Recommendation Nos. 8a and 8b.

The Mission is in receipt of documentary evidence that income tax deducted on salaries by FPSTC were deposited in time with appropriate authorities. A copy of the deposit slip is attached.

Regarding subpart 8b, FPSTC have issued an Office Order (copy attached) which establishes the procedure to provide a statement of all fees collected in connection with training and include this with the regular quarterly report to USAID. The Mission is expecting to receive information in this regard periodically from FPSTC, starting with the next regular quarterly report due to USAID.

Based on the above comments and attached supporting documentation, the Mission requests that Recommendation Nos. 2, 3, 4, 5, 6, 7b, 7c, 7d, and 8a be closed upon issuance of the final report.