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**NON-FEDERAL AUDIT REPORT OF
THE ASIA FOUNDATION
UNDER THE FAMILY PLANNING AND
HEALTH SERVICES PROJECT**

AUDIT REPORT NO. 5-388-90-05-N

SEPTEMBER 10, 1990

While most of the expenditures being claimed were properly supported, about \$7,100 in questionable costs and misappropriated funds needed to be recovered. Improvements were also needed in the controls over time and attendance, participant training costs, and interest income; the segregation of duties; the procurement activities; and the performance of internal audits. In addition, more complete compliance was required for certain regulations.

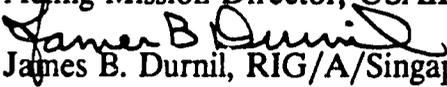
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September 10, 1990

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

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

SUBJECT: Non-Federal Audit of The Asia Foundation Under the Family
Planning and Health Services Project in Bangladesh (388-0071)
Audit Report No. 5-388-90-05-N

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

TAF is a nonprofit and non-governmental organization, incorporated in California, that is actively assisting the Government of Bangladesh to improve the coverage and quality of family planning services. The primary purpose of the cooperative agreement with TAF was to continue and expand activities for subgrants in family planning services, for the technical resources and training fund, and for female secondary education scholarship projects. From 1987 to June 30, 1989, USAID/Bangladesh has obligated a total of \$10,232,000 for TAF.

The audit objectives were to (1) report on the fairness of TAF's fund accountability statement for the period from September 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 September 1, 1987 through September 30, 1989, and the audit covered \$7,560,477 in funds provided to TAF.

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

- TAF prepares the statement on a cash basis, which is a comprehensive basis for accounting but is not in accordance with generally accepted accounting principles (see page 7).
- Project administration costs of \$190,039 incurred by TAF's headquarters in San Francisco were not verifiable in Bangladesh (see page 7).

- The budget line item expenses included questioned costs totalling \$709 (see page 16).
- Interest earned was not readily identifiable, all equipment purchases were not reported, \$6,398 reported as misappropriated funds had not been recovered, and indirect cost rates have to be adjusted (see page 18).

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 three findings were reported:

- Participant's daily attendance records were not maintained and excess per diem allowances were paid, local employees salaries were paid in cash, and adequate records for sales to subgrantees were not maintained (see page 23).
- There was a need to segregate duties (see page 26).
- There were inadequate procurement procedures (see page 27).

In the opinion of Price Waterhouse, TAF had generally complied with the agreement's terms, applicable laws, and regulations. However, two noncompliance issues were noted—the need to maintain a control system for property records and the need to perform regular audits of some subgrantees.

The draft report was discussed with both USAID/Bangladesh and TAF representatives. Their comments (Appendix 1) were taken into consideration by the auditors in preparing the attached final report. Both USAID/Bangladesh and TAF generally agreed with the findings and indicated corrective action would be taken to improve internal controls and correct the compliance issues.

The Price Waterhouse report contains six 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 \$709 in questionable costs.**
- Recover the \$6,398 reported as misappropriated by a subgrantee member (Association for Family Development).**

Recommendation No. 2

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

- (a) Identifying interest earned on A.I.D. funds.
- (b) Including the cost of all A.I.D.-funded equipment in the Fund Accountability Statement.
- (c) Reallocating duties among existing personnel so that incompatible functions are segregated.
- (d) A procuring system including competitive quotations, and standardizing purchase orders and receipts for commodities received.

Recommendation No. 3

We recommend the USAID/Bangladesh ensure that TAF complies with the cooperative agreement terms for:

- (a) Maintaining an equipment register and identifying A.I.D.-funded equipment.
- (b) Auditing all subgrantees on a regular basis.

Based upon the Mission's comments to the draft report, recommendations 1(a), 2(a), 2(d), and 3(a) are resolved and will be closed when the corrective actions have been completed. Because they are pending certain discussions, recommendations 1(b) and 2(b) are not resolved. Recommendations 2(c) and 3(b) are resolved and will be closed upon report issuance.

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

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

THE ASIA FOUNDATION

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

AUDITORS' REPORT



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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 Asia Foundation (TAF) in support of USAID/Bangladesh's Family Planning and Health Services Project No. 388-0071.

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 on September 30, 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 Asia Foundation (TAF). TAF is a private, non-profit organization incorporated in California, U.S.A. Its primary goal is to strengthen public and private institutions and voluntary organizations in Asia and responding to the initiatives of these organizations. TAF has maintained an office in Dhaka, Bangladesh since 1954. The primary focus during this period has been the provision of financial assistance to local private organizations in order to expand existing activities in health care, family planning, education and community development.

Since 1987, USAID has obligated a sum of \$ 10,232,000 to TAF. The most recent amendment to the Cooperative Agreement (No. 388-0071-A-00-7083-05) was dated December 31, 1989. The

purpose of the Agreement was to continue and expand activities in the following three areas :

1. Family Planning Services Subgrants
2. Technical Resources, Research and Training Fund
3. Female Secondary Education Scholarship Projects

As of June 30, 1989 USAID/Bangladesh obligated US\$ 10,232,000 for this Agreement. A sum of US\$ 7,560,477 has been expended during the period 1st September, 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 the AICPA and U.S. Government Auditing Standards set out in the U.S. General Accounting Office's "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 or the laws of Bangladesh. The principal objectives of the audit were to determine whether :

1. TAF's Fund Accountability Statement relating to Family Planning and Health Services Project (388-0071) fairly presented the receipts and expenditure for the period from September 1, 1987 to September 30, 1989 in conformity with the terms of the Cooperative Agreement with the Agency for International Development (A.I.D) 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
2. TAF's internal accounting controls were adequate for A.I.D purposes
3. TAF 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 TAF. Our examination revealed that :

- Interest earnings on USAID granted funds refundable to USAID were not separately identifiable in the absence of separate bank accounts in respect of USAID disbursed funds
- Depreciation on equipment used by population specialists is included in the Fund Accountability Statement
- Certain sums due from a subgrantee where USAID funded activities had been terminated were outstanding on 30th September, 1989
- Indirect costs were not charged at appropriate rates

Except for our above remarks, in our opinion, the Fund Accountability Statement presents fairly the receipts and expenditure of funds provided to the The Asia Foundation (TAF) in support of USAID / Bangladesh's Family Planning and Health Services Project No. 388-0071. We also identified US \$ 709 as questioned cost.

Internal Accounting Controls

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

- There were certain lapses, as specified in the report, in the internal control system regarding the proper recording and accounting of funds received from USAID
- There was lack of segregation of duties with respect to certain incompatible functions in the area of cash and payroll
- There were certain weaknesses in the procurement control system adopted by TAF

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 Statements 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 TAF 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 TAF complied with the Agreement terms 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 and applicable laws and regulations.

TAF MANAGEMENT COMMENTS ON OUR FINDINGS AND RECOMMENDATIONS

TAF 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.

Price Waterhouse

PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

28th August, 1990



Price Waterhouse



THE ASIA FOUNDATION

**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 September, 1987 to 30th September, 1989 of the funds provided to the The Asia Foundation (TAF) in support of USAID/Bangladesh's Family Planning and Health Services Project (388-0071). Our examination was made in accordance with generally accepted auditing standards and the U.S. Government'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(b) on Schedule 4, 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. Transactions in local currency (Taka) were converted at the rate of exchange prevailing on the date of the transaction.

The Fund Accountability Statement includes project administration expenses aggregating US \$ 190,039 incurred by TAF head office in San Francisco. The related documentation is maintained in San Francisco and is therefore not verifiable in Bangladesh.

In our opinion, to the best of our information and according to the explanations given to us, the Fund Accountability Statement, read with the notes attached thereto and except for our observations set out in Finding 2 of this report, fairly presents the receipts and expenditure of the funds provided to TAF in support of USAID/Bangladesh's Family Planning and Health Services Project No. 388-0071 for the period 1st September, 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 questioned costs aggregating US\$ 709, which we believe should be reviewed by USAID/Bangladesh for allowability. (See Finding 1 enclosed herewith).

This report is intended solely for the use of TAF 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



THE ASIA FOUNDATION

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

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

	SCHEDULE REFERENCE	AMOUNT US \$
SOURCE OF FUNDS		
Opening Balances as at 1st September, 1987 With Banks		-
Contributions from USAID [Note 2(b)]	1	7,560,477
TOTAL		<u>7,560,477</u>
APPLICATION OF FUNDS		
Budget categorywise expenses for the period 1st September, 1987 to 30th September, 1989	2	7,552,950
Closing Balances as at 30th September, 1989 With Banks	3	7,527
TOTAL		<u>7,560,477</u>
Notes on Fund Accountability Statement	4	

5th June, 1990

Price Waterhouse

PRICE WATERHOUSE
CHARTERED ACCOUNTANTS



SCHEDULE 1

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

SCHEDULES TO THE FUND ACCOUNTABILITY STATEMENT

SCHEDULE OF CONTRIBUTION FROM USAID

	US \$
1 September 1987 - 30 September 1988	3,621,740
1 October 1988 - 30 September 1989	3,938,737
	<hr/>
	7,560,477
	<hr/>



SCHEDULE 2

THE ASIA FOUNDATION

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

SCHEDULES TO THE FUND ACCOUNTABILITY STATEMENT

SCHEDULE OF EXPENDITURE

Budget Category	1 September 1987 to 30 September 1988 US \$	1 October 1988 to 30 September 1989 US \$	TOTAL US \$
Family Planning Services Sub-grants	2,141,692	2,086,262	4,227,954
Female Education Scholarships	463,721	532,749	996,470
Sub-project Training	62,051	134,724	196,775
Technical Resources, Research and Training	21,546	9,322	30,868
Program Service Costs	18,000	24,000	42,000
Population Specialists	184,081	361,033	545,114
Equipment	17,652	8,834	26,486
Indirect Costs	712,642	774,641	1,487,283
	<u>3,621,385</u>	<u>3,931,565</u>	<u>7,552,950</u>



SCHEDULE 3

THE ASIA FOUNDATION

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

SCHEDULES TO THE FUND ACCOUNTABILITY STATEMENT

RECONCILIATION WITH USAID/BANGLADESH RECORDS

	US \$
Balance as per USAID/Bangladesh as at 30 September, 1989	921,678
Less: September 1989 disbursement accounted for by TAF in October 1989	828,700
	<hr/> 92,978
Less: September 1989 expenses of TAF not recorded by USAID/Bangladesh within September 1989	85,451
Balance as at 30 September 1989 as per Fund Accountability Statement	<hr/> 7,527



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 September 30, 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 Asia Foundation (TAF). TAF is a private, non-profit organization incorporated in California, U.S.A. Its primary goal is to strengthen public and private institutions and voluntary organizations in Asia and responding to the initiatives of these organizations. TAF has maintained an office in Dhaka, Bangladesh since 1954. The primary focus during this period has been the provision of financial assistance to local private organizations in order to expand existing activities in health care, family planning, education and community development.

Since 1987, USAID has obligated a sum of \$ 10,232,000 to TAF. The most recent amendment to the Cooperative Agreement (No. 388-0071-A-00-7083-05) was dated December 31, 1989. The purpose of the Agreement was to continue and expand activities in the following three areas :

1. Family Planning Services Subgrants
2. Technical Resources, Research and Training Fund
3. Female Secondary Education Scholarship Projects

2. BASIS OF ACCOUNTING/ACCOUNTING POLICIES

- a. The bank account and cash sheets maintained by The Asia Foundation (TAF) in respect of funds granted by USAID/Bangladesh under its Family Planning and Health Services Project (388-0071) are not separate and distinct from those maintained for other funds and activities.
- b. Contributions from USAID and all expenditure are accounted for on cash basis.
- c. Indirect costs are charged at rates agreed with USAID.
- d. Sub-grants are expensed on disbursement. Refunds, if any are netted off against disbursements in the year of receipt.
- e. Transactions in local currency (Taka) are converted at the rate of exchange prevailing on the date of the transaction.



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

FINDING 1

QUESTIONABLE TAF EXPENDITURES

Condition

Budget categorywise expenses include questioned costs to the tune of US \$ 709 as summarized below :

Payment Reference	Particulars	Amount US \$
195882 7 September, 1989	Payment to Ventura Catering Services for reception party for TAF President	345
Cash 26 January, 1989	Payment to staff of Power Development Board for improving power load for office	364
		<u>709</u>

Criteria

All expenses should be in accordance with the Cooperative Agreement, mandatory standard provisions for non-US grantees, and Office of Management and Budget (OMB) circulars A-110 and A-122.

Cause

The reason for the above referred expenditure being incurred may be a lack of clarity among accounting personnel of TAF responsible for USAID granted funds regarding the allowability of certain expenses.



Effect

The questioned costs referred to above do not ensure preparation of an accurate Fund Accountability Statement as budget category expenses are overstated and the unspent balances are understated.

Recommendation No.1

We recommend that USAID/Bangladesh obtain from The Asia Foundation additional justification for allowability of the above-mentioned questioned costs aggregating US \$ 709.

TAF Management Comments

After review, The Asia Foundation has decided to transfer these costs to another source of funds.

FINDING 2

Condition

Our examination disclosed the under-mentioned deficiencies in the preparation of the Fund Accountability Statement :

- a. Interest earned on USAID disbursed funds and refundable to USAID is not readily identifiable in the absence of separate bank accounts in respect of USAID disbursed funds
- b. The Fund Accountability Statement does not include cost of all equipments purchased in 1988-89. Of the actual expenses of US \$ 29,227 including clearing and delivery charges incurred and recorded during the period, US \$ 8,834 is included in the Fund Accountability Statement. This may be due to inclusion of depreciation on items of equipment used by staff members in other budget categories.
- c. US \$ 6398 unaccounted for and reported as misappropriated by staff members of Association for Family Development (AFD), whose sub-grant agreement was terminated in 1988-89, has not yet been recovered by TAF and is included in Family Planning Services Sub-grants in the Fund Accountability Statement.
- d. Indirect costs have been charged at 24.5% of direct costs although by virtue of Amendment 5 dated 31 December, 1989 to the Agreement, the rate applicable from 1 October, 1987 is 22.6%.



Criteria

Preparation of Fund Accountability Statements to present fairly the receipts and expenditure of funds require maintenance of separate bank accounts and adequate supporting documentation for all transactions and incorporation of the effect of all transactions pertaining to the funds.

Cause

Inadequate internal check and oversight may have been responsible for the deficiencies mentioned above.

Effect

The above-mentioned deficiencies did not ensure accurate preparation of the Fund Accountability Statement.

Recommendation No. 2

We recommend that USAID/Bangladesh require The Asia Foundation to :

- a. ensure that interest earned on USAID disbursed funds is readily identifiable
- b. include the cost of all equipments purchased in the Fund Accountability Statement
- c. take appropriate measures to recover US \$ 6398 from AFD
- d. charge indirect costs at appropriate rates

TAF Management Comments

In accordance with USAID Handbook 13 and TAF's usual accounting procedures, TAF does not physically segregate cash depositories for funds provided by USAID either in San Francisco or in Dhaka. TAF maintains separate books, records and documents to substantiate charges to the grant.

Subject to concurrence by the San Francisco office, the Dhaka office of TAF agrees with the recommendation and will include the cost of all equipment purchased in the Fund Accountability Statement.



As documented in TAF's letter of April 25, 1990 to USAID/Bangladesh, TAF initially requested AFD to refund the funds. When a refund was not forthcoming, TAF contacted its lawyer to pursue the feasibility of a suit against AFD and/or any of its staff. Copies of the lawyer's opinions were sent to the USAID Office of Population and Health and the Regional Legal Adviser. TAF believes that all possible measures have been taken to reclaim these funds and that further action would serve no purpose. TAF is waiting for the recommendation of USAID/Bangladesh.

The procedure of TAF is to charge the current rate approved by the Grants Officer, Office of Supply, Transportation and Procurement, Department of State. When the Cooperative Agreement was signed, the provisional rate for indirect costs was 22.5%. TAF charged at this rate until it received Amendment No. 2, which substituted a provisional rate of 24.5% for the original rate. TAF used this rate until it was notified, on August 17, 1989 by the San Francisco office that the provisional rate was adjusted to 22.6%. TAF began using this rate and a corresponding amendment to the Cooperative Agreement was received in December 1989. Final adjustments of indirect costs will be made when the grant is closed.



Price Waterhouse



THE ASIA FOUNDATION

**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
US Agency For International Development
Singapore.

We have performed a financial and compliance non-federal audit for the period 1st September, 1987 to 30th September, 1989 of the funds provided to the The Asia Foundation (TAF) 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 TAF'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, 5) Internal Audit and Follow-up System. The scope of our work was limited to the examination of the Fund Accountability Statement of TAF.

The management of TAF 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 authorisation 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 TAF 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 inadequate procurement procedures are described in Findings 1 to 3.

This report is intended solely for the use of TAF 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



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

FINDINGS ON INTERNAL ACCOUNTING CONTROLS

FINDING 1

Deficiencies in TAF's accounting and related control system

Condition

In the course of our audit, we have come across the following deficiencies :

- a. TAF did not insist on maintenance of daily attendance records for participants at training courses conducted by different Organizations like Concerned Women for Family Planning or Family Planning Services and Training Center. This together with the system of payment of per diem allowances for the entire duration of the course at its commencement, did not ensure effective control over such allowances.
- b. Per diem allowances in excess of entitlements were noted to have been paid to training course participants in the following cases.

Payment Reference	Training Center	Duration of Course	Entitlement to per diem US \$	Actual per diem paid US \$
121083 30 October 1988	FPSTC	26 October 1988 - 6 November 1988	858 (13 days)	924 (14 days)
121246 8 December 1988	Radda Barnen	4 December 1988 - 21 December 1988	393 (19 days)	455 (22 days)

- c. Salaries to all local employees are paid in cash. This slackens control and does not preclude the possibility of misappropriation.



- d. TAF did not maintain adequate subsidiary records of report forms sold to subgrantees rendering effective control over recoveries from sale of such forms difficult.

Criteria

Generally accepted accounting standards require the establishment of internal accounting controls for ensuring appropriate and complete financial information in the accounting records.

Cause

The reasons for the above referred deficiencies in accounting and the related control system may be the absence of established procedures of internal control.

Effect

The deficiencies referred to above may not always ensure preparation of an accurate Fund Accountability Statement. Lack of uniformity and appropriate understanding of systems and procedures resulted in carrying out duties by the concerned employees of TAF according to their own criteria. The circumstances give rise to more than a low risk of errors and omissions, which may remain undetected in a timely manner.

Recommendation No. 3

We recommend that USAID/Bangladesh require The Asia Foundation to develop internal accounting controls to ensure that :

- a. Daily attendance records are maintained for training courses and reviewed by TAF officials
- b. Per diem allowances paid to participants at training courses are in accordance with their entitlements
- c. Salaries are paid by check/bank transfers wherever practicable
- d. Adequate subsidiary records are maintained for report forms sold to sub-grantees

TAF Management Comments

The use of a daily attendance sheet has been instituted at CWFP and FPSTC for TAF funded trainees.

The introduction of daily attendance sheets will ensure that per diem is paid only for the actual number of days that a training course was held or an individual attended a training course.



As of May, 1990, TAF is paying all local staff by bank transfer.

TAF has designed a record-keeping form and all transactions are duly recorded.

FINDING 2

Lack of segregation of duties

Condition

The Accounts Officer is responsible for the incompatible functions of receipt of cash and preparation of deposit slips for banking and also for preparation of payroll and payment of salaries.

Criteria

An adequate system of internal control should provide for segregation of duties in relation to receipt and banking of cash and preparation of payroll and disbursement of salaries.

Cause

There was absence of a proper system of internal control in this regard.

Effect

The weakness has resulted in one individual performing incompatible functions and accordingly, errors and other discrepancies could remain undetected for considerable length of time.

Recommendation No. 4

We recommend that USAID/Bangladesh require TAF to adopt a procedure for ensuring that incompatible functions are effectively segregated. This can be done by reallocation of duties among existing personnel.

TAF Management Comments

Following the auditors' visit, a procedure has been designed using existing personnel in the accounting and administrative offices.



FINDING 3

TAF needs to improve its procurement procedures

Condition

The system of procurement followed by TAF did not provide for competitive quotations, standardized purchase orders or goods receipt notes. In most cases, quotations were not invited and formal purchase orders were not issued. A few illustrative examples are set out below.

Item	Check No.	Date	Amount (US \$)
Revolving Chair	195951	24 Sept 89	541
Xerox Paper	120995	11 Oct 88	598
Furniture	121384	15 Sept 89	1148

Criteria

An effective procurement system should invariably provide for competitive quotations, standardized purchase orders and goods receipt notes.

Cause

An inadequate appreciation of procurement control measures may have caused the weaknesses mentioned.

Effect

The weaknesses mentioned may cause inefficient procurement resulting in ineffective utilization of funds.

Recommendation No. 5

We recommend that USAID/Bangladesh require The Asia Foundation to ensure that competitive quotations are invited, purchase orders are issued and goods receipt notes are prepared for all purchases.

TAF Management Comments

TAF now requires competitive quotations, purchase orders and goods receipts for all items costing US \$ 500 or more.



Price Waterhouse



THE ASIA FOUNDATION

**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,
US Agency For International Development,
Singapore.

We have examined the Fund Accountability Statement for the period 1st September, 1987 to 30th September, 1989 of the funds provided to The Asia Foundation (TAF) 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 TAF. 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, except for observation as described in Finding 1 of this report, TAF 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 TAF 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 TAF 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

THE ASIA FOUNDATION
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

TAF did not comply with certain Agreement terms/ applicable laws and regulations

Condition

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

- a. TAF was required to maintain a control system in respect of non expendable property to facilitate ready identification and location of such property. Maintenance of a complete property register together with use of distinct identification numbers for USAID financed property, neither of which was adopted by TAF, would be essential for such a control system.
- b. In accordance with the terms of the Cooperative Agreement, TAF was required to conduct an annual audit of sub-grantees to whom funds in excess of US \$ 25,000 were disbursed. Other sub-grantees were required to be audited once in two years. However, such audits were not performed regularly for all Sub-grantees. Representative examples of non-performance of audits is cited below :

Sub-grantee	Financial Year
Center for Development Services	1987-88 and 1988-89
Progotisheel Samaj Kalyan and Family Planning Samity	1988-89

Criteria

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



Cause

TAF and USAID did not always ensure compliance with agreement terms/ applicable laws and regulations.

Effect

In view of the non-compliance issues discussed above, USAID cannot be assured that TAF exercises adequate control over funds granted by it and property acquired out of such funds.

Recommendation No. 6

We recommend that USAID/Bangladesh require The Asia Foundation to ensure that :

- a. A proper fixed assets register is maintained and USAID financed assets are distinctly marked
- b. Accounts of Center for Development Services and Progotisheel Samaj Kalyan and Family Planning Samity are audited

TAF Management Comments

In compliance with the Optional Standard Provisions, Title to and Use of Property (Grantee Title), TAF is designing a database system to maintain the required data.

The required audits will be performed.



LIST OF REPORT RECOMMENDATIONS

Fund Accountability Statement

1. USAID/Bangladesh should obtain from The Asia Foundation additional justification for allowability of questioned costs aggregating US \$ 709.
2. USAID/Bangladesh should require The Asia Foundation to :
 - a. ensure that interest earned on USAID disbursed funds is readily identifiable
 - b. include the cost of all equipments purchased in the Fund Accountability Statement
 - c. take appropriate measures to recover US \$ 6398 from AFD
 - d. charge indirect costs at appropriate rates

Internal Accounting Controls

3. USAID/Bangladesh should require The Asia Foundation to develop internal accounting controls to ensure that :
 - a. Daily attendance records are maintained for training courses and reviewed by TAF officials
 - b. Per diem allowances paid to participants at training courses are in accordance with their entitlements
 - c. Salaries are paid by check/bank transfers wherever practicable
 - d. Adequate subsidiary records are maintained for report forms sold to sub-grantees
4. USAID/Bangladesh should require TAF to adopt a procedure for ensuring that incompatible functions are effectively segregated. This can be done by reallocation of duties among existing personnel.
5. USAID/Bangladesh should require The Asia Foundation to ensure that competitive quotations are invited, purchase orders are issued and goods receipt notes are prepared for all purchases.



Compliance with Agreement terms and applicable laws and regulations

6. USAID/Bangladesh should require The Asia Foundation to ensure that :
 - a. A proper fixed assets register is maintained and USAID financed assets are distinctly marked.
 - b. Accounts of Center for Development Services and Progotisheel Samaj Kalyan and Family Planning Samity are audited.



UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
 Dhaka, Bangladesh

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/India's (PWI) Draft Non-Federal Audit (NFA) Report of The Asia Foundation (TAF) under USAID Project No. 388-0071

Attached are the Mission comments and responses to the six recommendations (three recommendations having subparts) of the subject audit report.

Based on the discussions during the exit conference held in USAID/Bangladesh on June 5, 1990, all the recommendations of the draft report were considered as resolved and majority of them (Recommendation Nos. 1, 2b, 2e, 3a, 3b, 3c, 3d, 4, and 6b) will be closed upon issuance of the final NFA report based on Mission comments and supporting evidence which are now attached with this memorandum. As regards Recommendation No. 2b, it was agreed to by all parties who attended the exit conference that the recommendation will not be included in the report. This decision was reached after considerable discussion during the meeting. The Mission and TAF were told by RIG/A/SIG and PWI representatives that it will be deleted from the report. The Mission, therefore, will not respond to this recommendation at this time and expects that it will either be taken out from the final report or considered closed upon issuance of the final report.

The Mission comments have been prepared based upon our review of (i) TAF management comments to the recommendations and (ii) necessary documentation submitted by TAF 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 either still ongoing or yet to be initiated, particularly in connection with Recommendation Nos. 2a, 2c, 2d, 5, and 6a, and may take more time before they are complete and Mission request for closure can be made. 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, some 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.

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

Attachment: as stated.

Mission Comments to the Draft NFA Audit Report on TAP

Recommendation No. 1:

USAID/Bangladesh obtain from The Asia Foundation additional justification for allowability of the above-mentioned questioned costs aggregating US \$709.

Mission Comments:

The Mission agrees with the measures indicated in TAP's Management comments to the draft report and is in receipt of documentary evidence showing that TAP Local Office in Bangladesh have taken actions with TAP Home Office to make adjusting entries to transfer the charges to another source of funds (copy attached).

Recommendation No. 2:

USAID/Bangladesh require The Asia Foundation to:

- a. ensure that separate bank accounts are maintained in respect of funds pertaining to Family Planning and Health Services Project (388-0071).
- b. maintain adequate supporting documentation for expenses incurred in San Fransisco.
- c. include in the Fund Accountability Statement the cost of all equipments purchased.
- d. take appropriate measures to recover US \$6398 from AFD.
- e. charge indirect costs at appropriate rates.

Mission Comments:

With regard to the subpart 2a, PWI and RIG/A/SIG representative agreed during the exit conference that the recommendation would be rephrased to attach more importance to the issue of interest bearing accounts and interest earnings, on funds advanced by AID and develop mechanism to determine yearly interest earnings on AID advances so that any amount in excess of \$100 in interest earnings can be refunded to AID. The issue of separate bank accounts was dropped in view of TAP's Management comments that separate books, records and documents were adequate to substantiate charges to the AID grant and that separate bank accounts are not required by Federal Regulation, for grantees/recipients. Both TAP and the Mission expected that the recommendation would be rephrased by the PWI auditors. Moreover, TAP's Local Office in Bangladesh initiated actions (copy of TAP letter attached) based on indications that the recommendation would be rephrased. In addition, TAP's Local Office representative now is in San Fransisco to discuss the matter with TAP Home Office. The Mission now requests that this recommendation be rephrased, accordingly, as agreed.

Regarding subpart 2c, as indicated above, TAP's Local Office representative is in San Fransisco to pursue the matter and obtain TAP

Home Office concurrence before taking actions to include cost of all equipment purchased in the Fund Accountability Statement. At this moment, the Mission has no further information regarding TAP Home Office concurrence.

On subpart 2d, in addition to TAP's Management comment related to this recommendation, the Mission would like to add that the matter is still under review by the Regional Legal Adviser (RLA). Before rendering a decision and/or a recommendation on the issue, the RLA has requested the General Counsel Office in AID/W to provide some guidance. As soon as information is received from AID/W, the RLA will take necessary actions.

Regarding subpart 2e, the Mission endorses TAP's Management comments and confirms that TAP has been charging the appropriate provisional rate, as applicable currently, for indirect costs under the Cooperative Agreement of Project 388-00/1.

Recommendation No. 3:

USAID/Bangladesh require The Asia Foundation to develop internal accounting controls to ensure that:

- a. Daily attendance records are maintained for training courses and reviewed by TAP officials.
- b. Per diem allowances paid to participants at training courses are in accordance with their entitlements.
- c. Salaries are paid by check/bank transfers wherever practicable.
- d. Adequate subsidiary records are maintained for report forms sold to sub-grantees.

Mission Comments:

With regard to Recommendation Nos. 3, the Mission fully concurs in TAP's Management comments and is in receipt of documentary evidences with respect to implementation of all the recommendations (copy attached). The documentary evidences clearly demonstrate that TAP has taken all actions necessary to comply with the recommendations.

Recommendation No. 4:

USAID/Bangladesh require TAP to adopt a procedure for ensuring that incompatible functions are effectively segregated. This can be done by reallocation of duties among existing personnel.

Mission Comments:

The Mission is in receipt of a copy of the TAP's internal memorandum (copy attached) which formalizes the segregation and reallocation of duties of employees previously performing payroll preparation and payment, cash receiving and depositing functions. The cash receiving and depositing functions are now being handled by the General Service Office (GSO) of TAP.

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Recommendation No. 5:

USAID/Bangladesh require The Asia Foundation to ensure that competitive quotations are invited, purchase orders are issued and goods receipt notes are prepared for all purchases.

Mission Comments:

The Mission endorses TAF's Management comments related to this recommendation. Though all TAF procurements valued at \$500 or more now require collection of competitive quotations, purchase orders, and goods receipt notes, TAF has yet to issue an office order to officially formalize the procedures. The Mission will follow up on this, and will inform RIG/A/SIG as soon as actions are completed by TAF.

Recommendation No. 6:

USAID/Bangladesh require The Asia Foundation to ensure that:

- a. A proper fixed assets register is maintained and USAID financed assets are distinctly marked
- b. Accounts of Center for Development Services and Progotisheel Samaj Kalyan and Family Planning Samity are audited.

Mission Comments:

Regarding subpart 6a, TAF has completed the data base fixed asset register (copy of the data base register pages attached). However, TAF has not indicated it has taken steps physically to distinctly mark AID financed assets. The Mission will follow up on this and update RIG/A/SIG after the final report is issued.

Regarding subpart 6b, TAF has completed the recommended audits of the two sub-grantees. The audits were performed by a local accounting/audit firm M/s. A Qasem & Company. The copies of the auditor's report cover pages are attached.

Based on the above comments and attached supporting documentation, the Mission requests that Recommendation Nos. 1, 2b, 2e, 3a, 3b, 3c, 3d, 4, and 6b be closed upon issuance of the final report.

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