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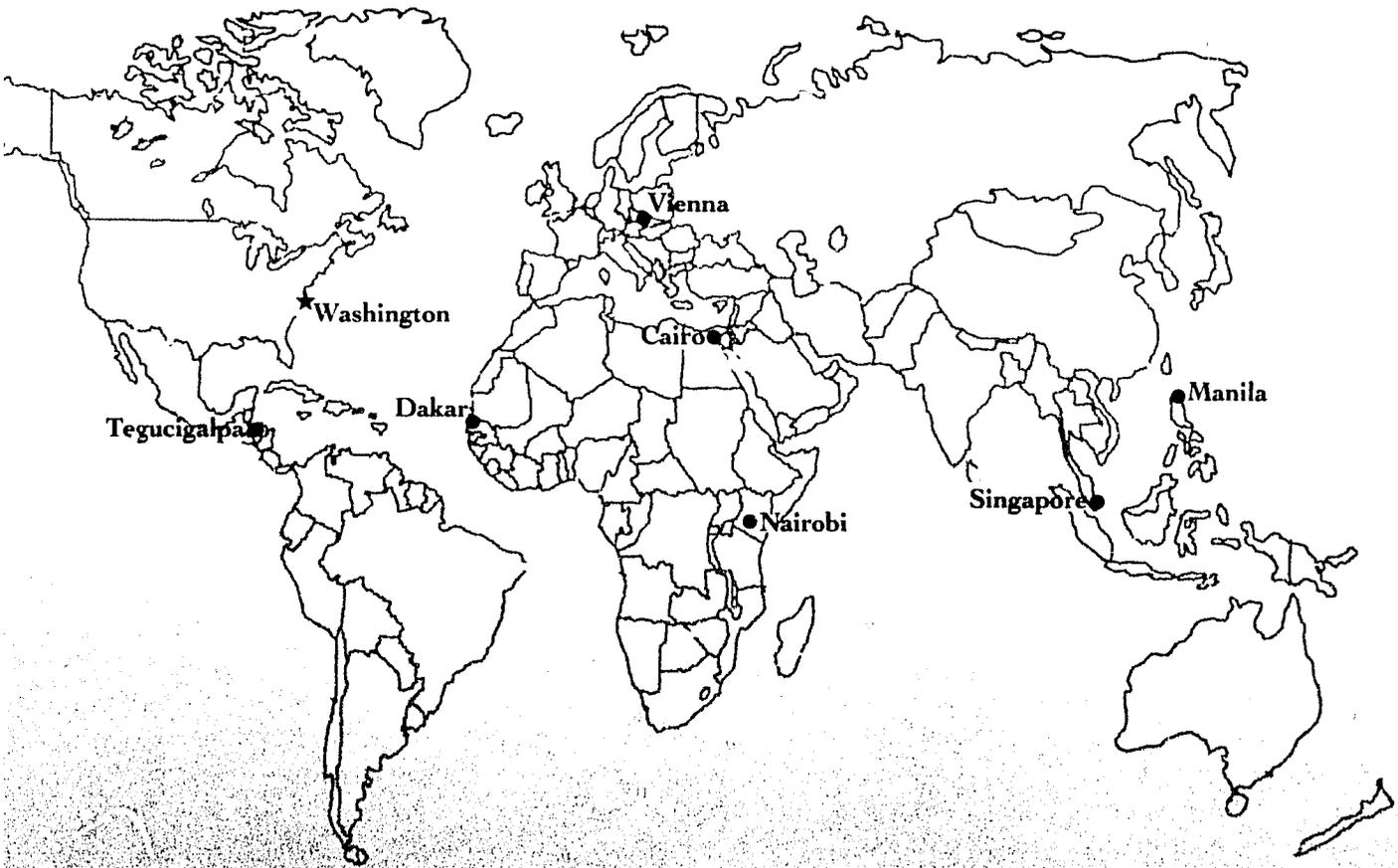
**Regional Inspector General for Audit  
Singapore**

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**AUDIT OF  
NEPAL CONTRACEPTIVE RETAIL SALES  
COMPANY (P) LTD.  
NEPAL**

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**Audit Report No. 5-367-92-29-N  
September 18, 1992**



**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

**AUDIT OF  
NEPAL CONTRACEPTIVE RETAIL SALES COMPANY (P) LTD.  
NEPAL**

**AUDIT REPORT NO. 5-367-92-29-N**

**September 18, 1992**

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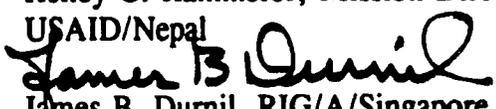
**The auditors qualified their report on the Fund Accountability Statement of the Nepal Contraceptive Retail Sales Company (P) Ltd., because they identified \$444,219 in questioned costs. Also, inventories could not be verified, and as a result, the auditors were unable to determine whether all income from contraceptives sales had been accounted for properly. In addition to these material instances of noncompliance, several material internal control weaknesses relating to sales revenues were noted.**

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U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

September 18, 1992

TO: Kelley C. Kammerer, Mission Director  
USAID/Nepal  
FROM:   
James B. Durnil, RIG/A/Singapore  
SUBJECT: Audit of the Nepal Contraceptive Retail Sales Company (P) Ltd. - Nepal  
Audit Report No. 5-367-92-29-N

The accounting firm of Coopers & Lybrand, Singapore, performed a financial audit of the Nepal Contraceptive Retail Sales Company (P) Ltd. (NCRSC) under the Cooperative Agreement No. 367-0135-A-00-3067-00 with USAID/Nepal for the Family Planning/Maternal and Child Health Project. Five copies of the audit report are enclosed for your action.

The family planning program in Nepal is supported and implemented by several institutions, of which NCRSC is one. NCRSC, a non-profit company, assists in the activities under the Project by promoting and distributing contraceptive products, and educating the Nepalese people on the use of contraceptives. These activities include the development of the Rural Social Marketing Program to increase the availability, attraction, acceptance, and use of contraceptive products. USAID/Nepal supports the Program with a cooperative agreement with NCRSC to fund and help expand the Company's family planning activities in the promotion and sale of contraceptives. The aim of the agreement is to enable NCRSC to become increasingly self-sufficient, thereby resulting in the eventual privatization of the Company. The Agreement is designed to strengthen of the Company's market research capability through training and technical assistance, and to provide qualified staff to manage and operate both the Company's central office and all field activities.

The audit objectives were to: (1) determine whether the Fund Accountability Statement of NCRSC presents fairly the receipts and expenditures under the Agreement and whether the expenditures were allocable, allowable, and reasonable; (2) report on NCRSC's system of internal controls; and (3) report on NCRSC's compliance with applicable laws, regulations, and agreement terms. The period covered by the audit was from August 10, 1983 through December 31, 1989, during which the Company reported that a total of \$1,491,101 was received

from USAID/Nepal, all of which was expended under the agreement. USAID/Nepal also provided contraceptives at no cost to NCRSC. NCRSC reported sales of these contraceptives and other revenues of \$385,666 and operational expenditures of \$274,843 from those revenues, which was in addition to funds received from USAID/Nepal.

The auditors qualified their report on the Fund Accountability Statement of NCRSC because they identified \$444,219 in questioned costs (\$109,651 unallowable costs and \$334,568 unsupported costs) relating mainly to expenditures that were not approved by USAID/Nepal as specifically required. Also, inventories could not be verified, and as a result, the auditors were unable to determine whether all income from contraceptives sales had been accounted for properly. In addition to these material instances of noncompliance, several material internal control weaknesses relating to sales revenues were noted.

The management of NCRSC disagreed with some of the findings and recommendations, and generally agreed with others. In those instances of disagreement, further comments have been made by the auditors and these comments are included under the respective findings in the report. NCRSC management's comments are summarized under each individual finding and are set out in full as Appendix C to the report.

The Coopers & Lybrand report contains 30 findings and recommendation on which USAID/Nepal should ensure that appropriate corrective action is taken and the applicable recommendations implemented. We are making the following three recommendations which will be included in the Inspector General's recommendation follow-up system.

**Recommendation No. 1:** We recommend that USAID/Nepal resolve the \$444,219 in questioned costs (\$109,651 unallowable and \$334,568 unsupported) identified in the report (Appendix A), and recover from Nepal Contraceptive Retail Sales Company (P) Ltd. any costs not allowable under the Cooperative Agreement.

**Recommendation No. 2:** We recommend that USAID/Nepal, before making any future payments, verify that the Nepal Contraceptive Retail Sales Company (P) Ltd.:

- (a) conducts a proper current physical count of the inventories of contraceptives held, reconciles the amounts counted to the inventory records as of the close-out of the Cooperative Agreement, reviews the reasonableness of the reconciling items, and resolves any differences arising from the reconciliation; and
- (b) establishes and implements adequate accounting internal control procedures to perform periodic counts of inventories (appropriately supporting these counts with documentation), account for the transfers of contraceptives to and from the various district warehouses, and

**account for the movements of contraceptives during repackaging (including the reporting and resolution of discrepancies arising from the repackaging process).**

**Recommendation No. 3: We recommend that USAID/Nepal, before making any future payments, verify that the Nepal Contraceptive Retail Sales Company (P) Ltd. establishes and implements adequate procedures to fully comply with the Cooperative Agreement terms to:**

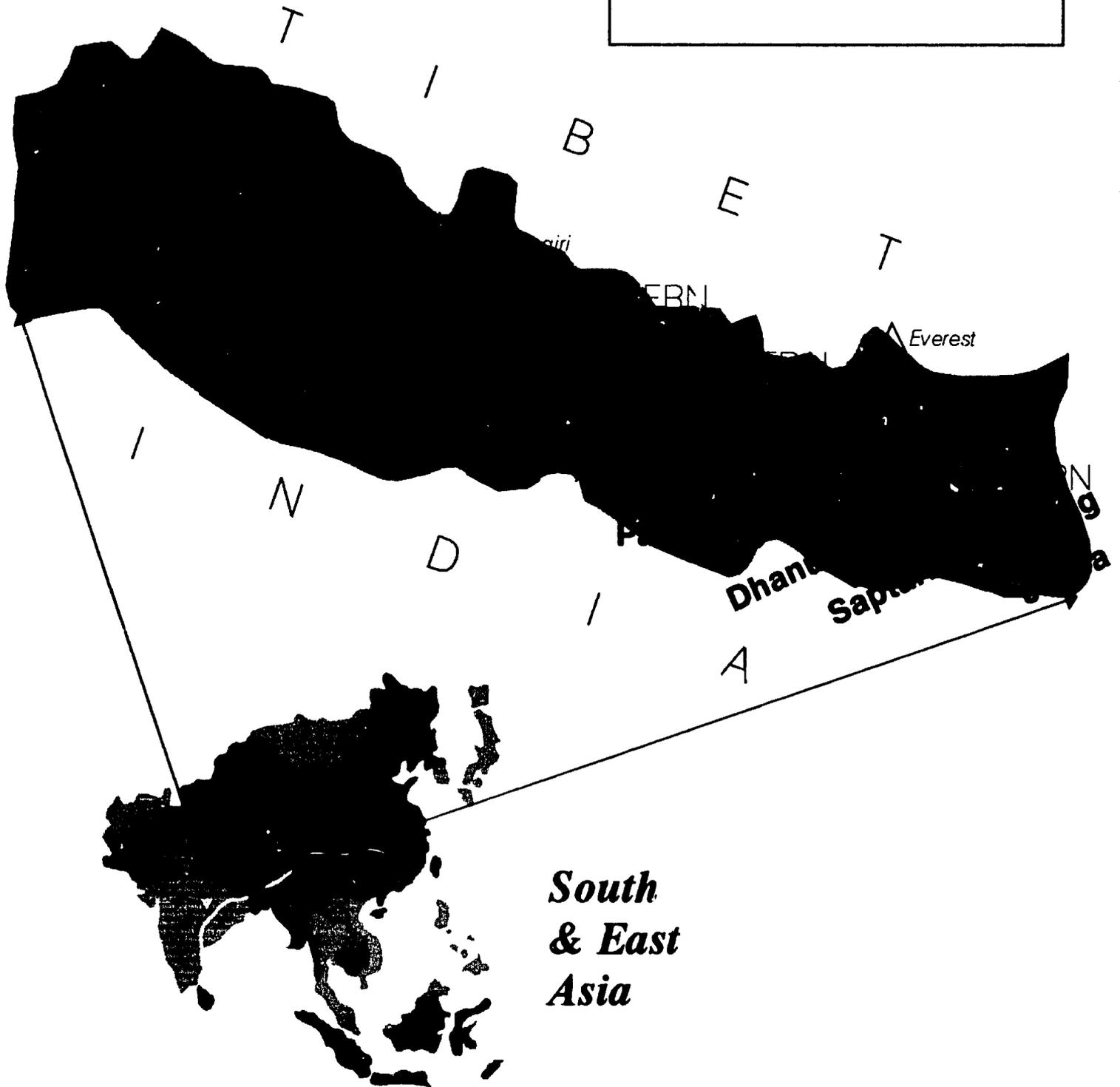
- (a) obtain prior approval from USAID/Nepal for expenditures incurred out of the revenue account, and for advertising costs, and appropriately document and support all expenditures incurred under the agreement;**
- (b) perform periodic reconciliations of the revenue accounts to the proceeds from the sales of contraceptives, and accurately calculate and pay sales incentives based on appropriately approved sales targets;**
- (c) submit quarterly evaluation reports and accurate financial reports based on correctly classified expenditures incurred;**
- (d) maintain proper records for all nonexpendable property and mark all such properties that are funded or provided by USAID/Nepal; and**
- (e) appropriately account for indirect costs incurred, determine a reasonable indirect cost rate in accordance with the Agreement terms, and submit this indirect cost rate to USAID/Nepal for approval.**

We appreciate the courtesies and cooperation USAID/Nepal and NCRSC extended to the auditors and our staff during the course of this audit.

Please advise me within 30 days of any actions planned or taken to close the above recommendations.

# *Nepal*

**Indicating the subdistricts  
(in red) in which CRS  
sales representatives  
and warehouses are located**



**FINANCIAL CLOSEOUT AUDIT OF  
THE NEPAL CRS COMPANY PVT. LTD.  
PERTAINING TO ITS COOPERATIVE AGREEMENT WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT IN NEPAL**

---

**COOPERATIVE AGREEMENT NO. 367-0135-A-00-3067-00  
FOR THE PERIOD AUGUST 10, 1983 THROUGH DECEMBER 31, 1989**

**Performed and Prepared**

**by**

**Coopers & Lybrand  
Singapore**

**KB Chitracar & Co  
Nepal**

**FINANCIAL CLOSEOUT AUDIT OF  
THE NEPAL CRS COMPANY PVT. LTD.  
PERTAINING TO ITS COOPERATIVE AGREEMENT WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT IN NEPAL**

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**INDEPENDENT AUDITORS' REPORT**

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your reference  
our reference

A2/GW/CRS

Mr James B Durnil  
Regional Inspector General  
for Audit, Singapore  
US Agency for International Development  
#17-03 Peninsula Plaza  
111 North Bridge Road  
Singapore 0617

7 August 1992

Dear Mr Durnil,

This report presents the results of our financial closeout audit of the Nepal CRS Company Pvt. Ltd. ("CRS") pertaining to Cooperative Agreement No. 367-0135-A-00-3067-00 with the United States Agency for International Development, Nepal ("USAID/N"), for the period August 10, 1983 to December 31, 1989. Funding from USAID/N continues beyond our review period under a new agreement which commenced on July 16, 1990.

Background - Nepal

Nepal is situated in the north-eastern region of the Indian subcontinent and has a population of nearly 19 million people. According to recent United Nations reports, it ranks as one of the ten poorest countries in the world with per capita income of US\$170. It also has one of the highest infant and child mortality rates, national literacy rates are exceptionally low and rapid population growth is inherent. Nearly half the population are under the age of 15.

His Majesty's Government (HMG) of Nepal gives a high priority to the problem of rapid population growth. Nepal today has a growing and ambitious Family Planning Program spearheaded by the Government's Family Planning/Maternal and Child Health (FP/MCH) Project. The program is supported and implemented by several institutions also presently active in Family Planning education and service. One of these is CRS which assists FP/MCH activities by covering promotion, education and distribution of contraceptives in the private sector. CRS has developed the "Rural Social Marketing" program in Nepal to increase the availability, knowledge, attraction, acceptance and use of contraceptive products throughout the whole of Nepal.



## resident partners

Tan Swan Jeng  
Reggie M Thein  
Jonathan H E Ou  
Khoo Kum Wing  
Chew Kia Ngee  
Chan Ket Teck

Noris C G Ong  
David G Compton  
Phillip E S Tan  
Michael G Gray  
Chew Teck Soor  
Foo Tiang Sooi

Ernest T P Seow  
Jimmy K H Seet  
Lawrence K S Seet  
Edwin T S Khoo  
Leong Yit Siong  
Quek Soo Tat

Betty Khoo  
Chey Chor Wai

## directors

D Michael Fleming  
Andrew Jackomos  
Jzyce Tan  
David K H Toh

Mr James B Durnil  
Regional Inspector General  
for Audit, Singapore  
US Agency for International Development  
Singapore

CRS - The Organization and its Programs

The Nepal CRS Company Pvt. Ltd. ("CRS") is a non-profit social marketing organization incorporated under the laws of HMG's Company Act 1964 in 1983. The Company was formed to take over the CRS project which was previously managed by a contractor, Westinghouse Corporation since 1978. USAID/N entered into a cooperative agreement with CRS to fund and help expand the Company's family planning activities of promotion and sale of contraceptives through the private sector. The aim of the Agreement was to enable CRS to become increasingly self sufficient resulting in the eventual privatization of the Company.

Under the Agreement, CRS had a goal of increasing overall product sales by a minimum of 15% per year. This was to be accomplished by expanding a nation-wide network for the commercial and retail sales of contraceptives in rural areas through a Rural Social Marketing Program, and expanding sales to non-governmental organizations (NGOs). CRS were also to strengthen the Company's market research capability through training and technical assistance, provide qualified staff to manage and operate both the Company's central office and all field activities.

As at December 31, 1989 USAID/N has provided funds amounting to \$1,491,000 together with over 35 million contraceptives for resale at no cost. The disposition of those contraceptives is illustrated in Appendix B. The proceeds from the sale of these contraceptives have been accumulated to be used to fund the expansion and eventual privatization of the Company.

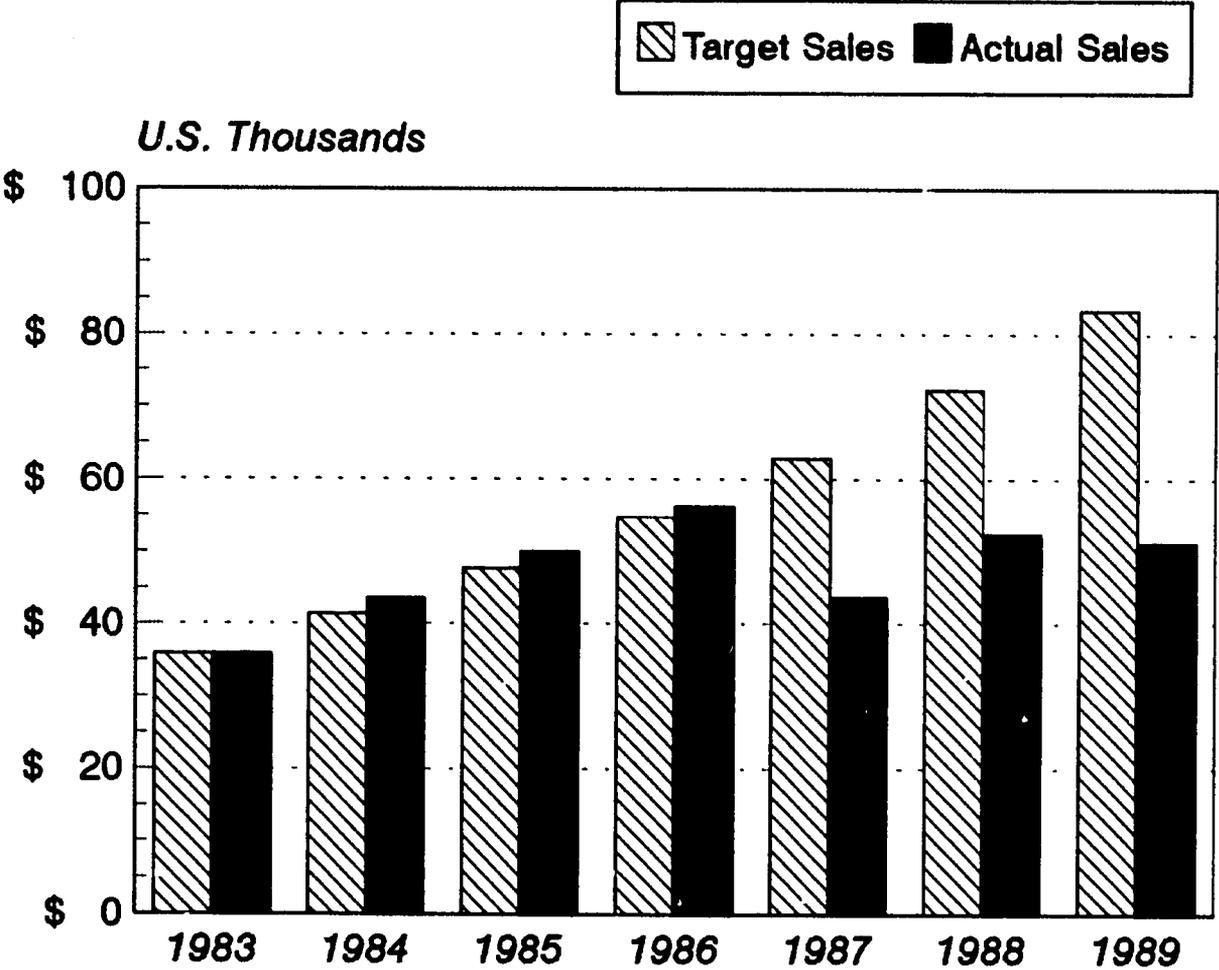
The actual sales achieved and the target sales measured in CYP's are illustrated in graph A on page 3. (One CYP represents a "couple year protection" and equates to 100 condoms or 100 foaming tablets or 13 cycles of pills.) The objective of increasing overall product sales by 15% per annum was successful up until 1986. In 1987 a decision was made to suspend discount sales and display contests, both of which had helped to boost sales over the first 8 years of the project. Although the quantity of contraceptives sold reduced, and the 15% target was not reached, revenue increased slightly and continued to do so in the following years.

CRS have also not been able to achieve the aim of reaching self sufficiency. Graph B on page 4 illustrates the level of both revenue received and costs incurred during the period of the Agreement. The level of self sufficiency achieved has remained constant throughout the period of the Agreement, with the total revenue received representing only 18% of the costs incurred.

# GRAPH A: ACTUAL SALES COMPARED TO TARGET SALES

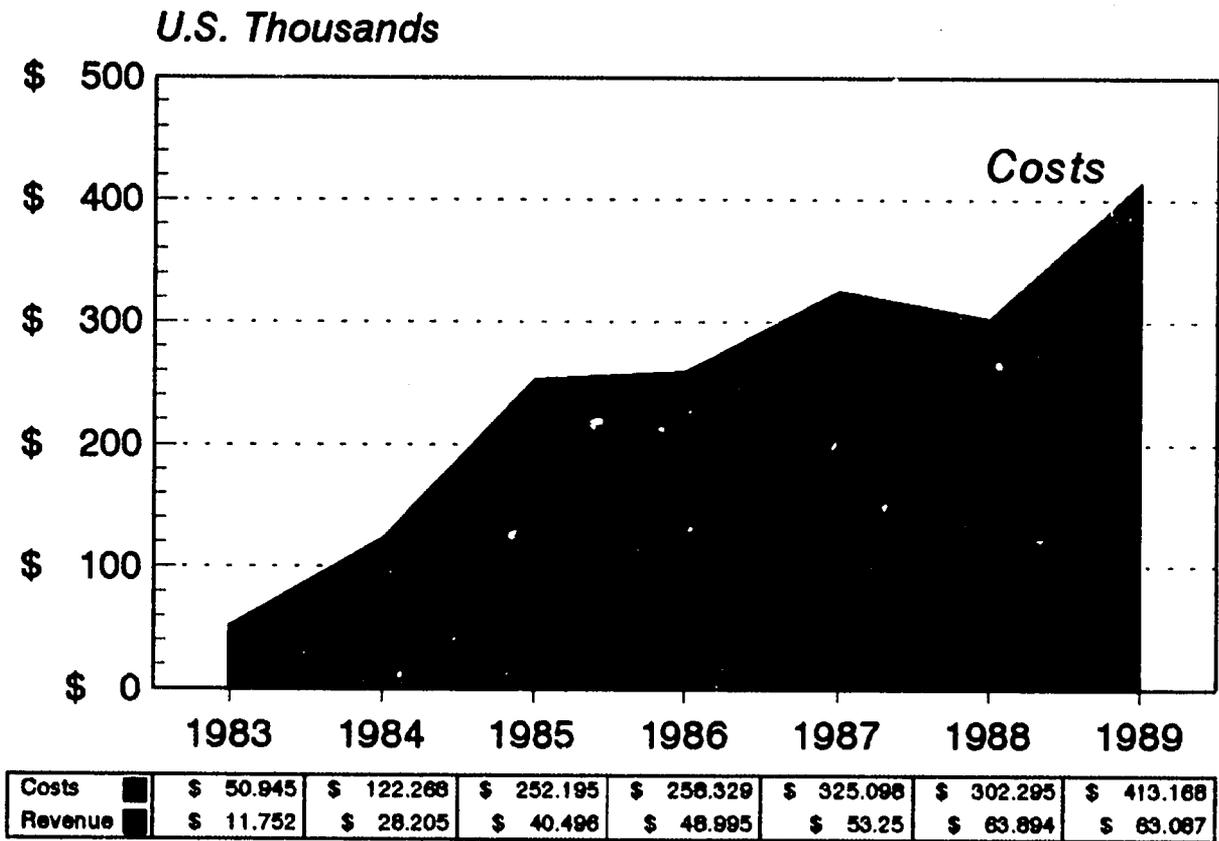
*The Nepal CRS Company Pvt. Ltd*

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## GRAPH B: REVENUE AND COSTS

*The Nepal CRS Company Pvt. Ltd.*



Mr James B Durnil  
Regional Inspector General  
for Audit, Singapore  
US Agency for International Development  
Singapore

Apart from its family planning activities under the Agreement, CRS also distributed oral rehydration salts ("ORS") packs from UNICEF. The proceeds from the sale of these ORS packs, together with subsidies from UNICEF, are used to help finance the related marketing and selling costs of ORS activities.

Audit Objectives and Scope of Work

We have conducted a financial closeout audit of CRS's Fund Accountability Statement as it relates to the Cooperative Agreement No. 367-0135-A-00-3067-00 for the period August 10, 1983 to December 31, 1989.

For the period, CRS received approximately \$1,491,000 in contributions from USAID/N for the purposes of the Cooperative Agreement.

The Fund Accountability Statement comprises the Receipts and Expenditure Statement and Revenue Account together with the closing balances for cash, receivables and payables for the Cooperative Agreement for the period August 10, 1983 to December 31, 1989, and the notes thereon. The results of our work are reflected in the accompanying Independent Auditors' Reports on the:

- (a) Fund Accountability Statement;
- (b) System of Internal Control; and
- (c) Compliance with Agreement Terms, Applicable Laws and Regulations.

The objectives of our work were to determine whether:

- (a) The Fund Accountability Statement for CRS presents fairly the receipts, income, expenditure and closing balances for cash, receivables and payables of CRS as they pertain to its Cooperative Agreement for the period noted above and is in accordance with the terms of the Cooperative Agreement. All expenditure reimbursed by USAID/N was covered by this audit;
- (b) CRS's internal accounting controls were adequate to provide reasonable assurance that the assets of CRS were safeguarded against loss from unauthorized use or disposition and that transactions were properly recorded; and
- (c) CRS has complied with applicable laws, regulations and agreement terms.

Mr James B Durnil  
Regional Inspector General  
for Audit, Singapore  
US Agency for International Development  
Singapore

Our audit was principally conducted in accordance with generally accepted auditing standards and US Government Auditing Standards and, accordingly, included such tests as we considered appropriate in order to satisfy our objectives.

The scope of our work included the following general procedures:

- (a) Holding meetings with USAID/N, CRS and USAID Regional Inspector General for Audit/Singapore ("RIG/S") officials;
- (b) Reviewing the Cooperative Agreement and appropriate amendments, OMB circulars, AID handbook regulations, prior period audit reports on CRS's financial statements, correspondence and minutes of meetings between USAID/N and CRS, as well as project progress reports maintained by both CRS and USAID/N;
- (c) Obtaining an understanding of the accounting, administrative and internal control systems of CRS using questionnaires, interviews, flowcharts and narrative descriptions;
- (d) Devising and performing appropriate tests on the transactions and balances recorded in the Fund Accountability Statement;
- (e) Designing appropriate audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the results of our audit. We were also aware of the possibility of illegal acts that could have an indirect and material effect on the results of our audit; and
- (f) Testing the effectiveness of administrative controls applied by CRS's management to ensure compliance with applicable laws, regulations and agreement terms.

#### Audit Results

(a) Opinion on the Fund Accountability Statement

As explained more fully in our report on pages 9 to 11, we were not able to determine whether all income from the sale of contraceptives had been recorded in the Fund Accountability Statement. In addition, we have identified questioned costs amounting to US\$ 444,219 which may be disallowable. Details of these costs are contained in Appendix A.1.

Mr James B Durnil  
Regional Inspector General  
for Audit, Singapore  
US Agency for International Development  
Singapore

(a) Opinion on the Fund Accountability Statement (cont'd)

Except for these matters, in our opinion, the Fund Accountability Statement presents fairly, in all material respects, the income, expenditure and closing balances for cash, receivables and payables of CRS for the period August 10, 1983 to December 31, 1989, as they pertain to Cooperative Agreement No. 367-0135-A-00-3067-00.

(b) System of Internal Controls

In accordance with Paragraph 19 of Chapter 5 of Government Auditing Standards, we limited our reliance on CRS's internal control structure as our preliminary review and documentation of the accounting and control systems indicated that an adequate structure did not exist for our reliance due to the small size of the entity. In order to maintain the efficiency of our audit, we therefore extended our substantive testing.

During the course of our audit, though, we noted certain matters involving the internal control structure and its operation that we considered to be reportable conditions. Eleven of these items were also considered to be material weaknesses. These matters have been detailed within the body of our report on pages 17 to 20.

(c) Compliance with Agreement Terms, Applicable Laws and Regulations

Our tests for compliance with agreement terms, applicable laws and regulations of selected transactions and records of CRS indicated that, for the items tested, except for the items noted in the following paragraph, CRS principally complied with those provisions of its agreement terms, as well as applicable laws and regulations, for the period under our review.

Certain instances of non-compliance were noted, and these are discussed further in our detailed report on pages 46 to 48.

Total USAID funded costs that were questioned amounted to US\$ 444,219.

With respect to transactions and records not tested by us, nothing came to our attention that caused us to believe that CRS had not complied, in all material respects, with agreement terms, applicable laws or regulations.

Mr James B Durnil  
Regional Inspector General  
for Audit, Singapore  
US Agency for International Development  
Singapore

In the course of our work, no significant or material findings and recommendations from previous audits, that affect the current audit objectives, were noted.

Comments on Findings and Recommendations

We have provided additional comments to findings that have been disagreed by the management of CRS. Except for these instances, they have generally agreed to our findings and recommendations on the internal control and non-compliance issues set out on pages 22 to 45 and pages 50 to 69 respectively, and their comments can be found on the relevant pages of our findings and in full in Appendix C.

Acknowledgments

We would like to take this opportunity to express our gratitude for the assistance given to us by the RIG/S office, USAID/N and the management and staff of CRS during the course of our audit.

Yours truly

*Coopers & Lybrand*

**REPORT ON THE  
FUND ACCOUNTABILITY STATEMENT**

your reference  
our reference

A2/GW/CRS

Mr James B Durnil  
Regional Inspector General  
for Audit, Singapore  
US Agency for International Development  
#17-03 Peninsula Plaza  
111 North Bridge Road  
Singapore 0617

7 August 1992

Dear Mr Durnil,

**THE NEPAL CRS COMPANY PVT. LTD.  
PERTAINING TO ITS COOPERATIVE AGREEMENT WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT IN NEPAL**

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

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- 1 We have audited the Fund Accountability Statement of the Nepal CRS Company Pvt. Ltd. ("CRS") pertaining to its Cooperative Agreement No. 367-0135-A-00-3067-00 with the United States Agency for International Development, Nepal ("USAID/N"), as it relates to the period August 10, 1983 to December 31, 1989. Funding from USAID/N continues beyond our review period under a new agreement which commenced on July 16, 1990.
- 2 This Statement, comprising the Receipts and Expenditure Statement and Revenue Account together with the closing balances for cash, receivables and payables for the Cooperative Agreement for the period August 10, 1983 to December 1989 and the notes thereon, and as set out on pages 12 to 16, is the responsibility of CRS's management. Our responsibility is to express an opinion on this Statement based on our audit.
- 3 Except as discussed in paragraph 5 below, we conducted our audit in accordance with generally accepted auditing standards and US Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts



**THE NEPAL CRS COMPANY PVT. LTD.**  
**PERTAINING TO ITS COOPERATIVE AGREEMENT WITH THE**  
**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT IN NEPAL**

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

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and disclosures in the financial statements. An audit also includes assessing the accounting principles used, and significant estimates made, by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

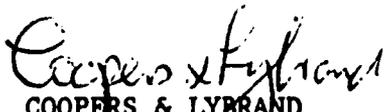
- 4 As stated in Note 2 on page 15 the Fund Accountability Statement presents only the transactions of CRS as it pertains to funds received from USAID/N under the Cooperative Agreement and is not intended to present fairly the income and expenditure of CRS as a whole.
- 5 We did not attend the stocktake of contraceptives held on December 31, 1989. As noted in finding 4 on page 26, no records of this stocktake were retained by the Company and we have not therefore been able to satisfy ourselves as to the quantity of contraceptives held at this date. As we need to satisfy ourselves on the inventory balance of contraceptives at December 31, 1989 in order to determine whether all income has been taken up in the accounts and we cannot carry out any other alternative auditing procedures, we are unable to form an opinion on whether all income received from the sale of contraceptives has been recorded in the Fund Accountability Statement.
- 6 As part of our examination, we identified questioned costs amounting to US\$ 444,219 which may be disallowable. Details of these costs can be found in Appendix A.1.
- 7 In our opinion, except for the effects of such adjustments on income received, if any, as might have been determined to be necessary had we been able to examine evidence regarding the quantity of contraceptives held at December 31, 1989 set out in paragraph 5 above, and any adjustments, if any, relating to the questioned costs set out in paragraph 6 above, the Fund Accountability Statement referred to above presents fairly, in all material respects, the income, receipts, expenditure and closing balances for cash, receivables and payables of CRS for the period August 10, 1983 to December 31, 1989 in conformity with generally accepted accounting principles.

THE NEPAL CRS COMPANY PVT. LTD.  
PERTAINING TO ITS COOPERATIVE AGREEMENT WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT IN NEPAL

INDEPENDENT AUDITORS' REPORT ON THE FUND  
ACCOUNTABILITY STATEMENT

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- 8 This report is intended solely for the use of USAID and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the USAID Regional Inspector General for Audit, Singapore, is a matter of public record.

  
COOPERS & LYBRAND  
Certified Public Accountants



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Gram: DHAAL.  
Telex: NP 2205 AAPU  
C/o Annapurna Hotel

नेपाल सि. आर. एल. कम्पनी (प्रा.) लि.  
**Nepal Contraceptive Retail Sales (CRS) Company (P) Ltd.**  
( A Non-Profit Social Marketing Company )  
Hattisar (Naxal), P. O. Box 842, Kathmandu, Nepal.

Ref No.

Date: 7 August 1992

THE NEPAL CRS COMPANY PVT. LTD.  
COOPERATIVE AGREEMENT NO. 367-0135-A-00-3067-00

**RECEIPTS AND EXPENDITURE STATEMENT  
FOR THE PERIOD FROM AUGUST 10, 1983 TO DECEMBER 31, 1989**

Note	RS	US\$ Equivalent
<b>Receipts</b>		
Funds received from USAID/Nepal	31,032,393	1,491,101
<b>Expenditure Incurred</b>		
Personnel costs	7,747,650	372,058
Sales expenses	4,203,277	201,850
Rural social marketing	769,828	36,969
Communication	12,134,788	582,738
Training	998,308	48,803
Administration	4,730,877	227,186
Other direct costs	447,665	21,497
	31,032,393	1,491,101

  
Mr. Subarna Jung Thapa  
CRS Acting Managing Director

The notes on page 15 form part of this statement





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नेपाल सि. आर. एस. कम्पनी (प्रा.) लि.  
**Nepal Contraceptive Retail Sales (CRS) Company (P) Ltd.**  
( A Non-Profit Social Marketing Company )  
Hattisar (Naxal), P. O. Box 842, Kathmandu, Nepal.

Ref No.

Date: 7 August 1992

THE NEPAL CRS COMPANY PVT. LTD.  
COOPERATIVE AGREEMENT NO. 367-0135-A-00-3067-00

**REVENUE ACCOUNT**  
**FOR THE PERIOD FROM AUGUST 10, 1983 TO DECEMBER 31, 1989**

	Note	RS	US\$ Equivalent
<b>Income</b>			
Sales of contraceptives	4	6,448,704	309,680
Interest		1,195,936	57,431
Sales of vehicles and equipment		239,444	11,499
Other income		146,938	7,056
		<u>8,031,022</u>	<u>385,666</u>
<b>Less</b>			
Expenditure incurred but not reimbursed by USAID/Nepal	5	5,723,268	274,843
		<u>2,307,754</u>	<u>110,823</u>
Excess of income over expenditure		980,583	68,096
Balance at August 10, 1983	6	-	(63,539)
Difference arising in exchange	1(c)		
		<u>3,288,337</u>	<u>115,380</u>
Balance at December 31, 1989 (Refer page 14)			

Mr. Subarna Jung Thapa  
CRS Acting Managing Director

The notes on page 15 form part of this statement





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नेपाल सि. आर. एल. कम्पनी (प्रा.) लि.  
**Nepal Contraceptive Retail Sales (CRS) Company (P) Ltd.**  
( A Non-Profit Social Marketing Company )  
Hattisar (Naxal), P. O. Box 842, Kathmandu, Nepal.

Ref No.

Date: 7 August 1992

THE NEPAL CRS COMPANY PVT. LTD.  
COOPERATIVE AGREEMENT NO. 367-0135-A-00-3067-00

**STATEMENT OF CASH, RECEIVABLES AND PAYABLES AT DECEMBER 31, 1989**

	<u>RS</u>	<u>US\$</u> <u>Equivalent</u>
<b>CURRENT ASSETS</b>		
Bank and cash balances	3,641,618	127,776
Advances, deposits and receivables	395,427	13,875
	<u>4,037,045</u>	<u>141,651</u>
<u>Less</u>		
<b>CURRENT LIABILITIES</b>		
Other creditors and accruals	(748,708)	(26,271)
<b>NET CURRENT ASSETS</b>	<u>3,288,337</u>	<u>115,380</u>

Mr. Subarna Jung Thapa  
CRS Acting Managing Director

The notes on page 15 form part of this statement



**THE NEPAL CRS COMPANY PVT. LTD.**

**Notes to the Fund Accountability Statement**

**1 Significant Accounting Policies**

- (a) The Fund Accountability Statement, expressed in Nepalese Rupees and their US dollar equivalent, is prepared in accordance with the historical cost convention.
- (b) Expenditure is accounted for on an accruals basis. Income relates to amounts received or receivable in cash.
- (c) Transactions arising in foreign currencies are translated to US dollars using an average rate for the statement period of US\$1 : Rs20.82. Assets and liabilities are translated at the closing rate of Rs28.50. During the period the exchange rate ranged from Rs14.40 to Rs28.50 to US\$1.

**2 Component Unit of CRS**

The Fund Accountability Statement which includes the Receipts and Expenditure Statement, Revenue Account and Statement of Cash, Receivables and Payables as presented in pages 12 to 14 of this report, presents only the transactions and balances of CRS as they pertain to the Cooperative agreement and is not intended to present fairly the income, expenditure, assets and liabilities of CRS as a whole.

**3 Other Direct Costs**

Included within other direct costs are items of non-expendable property amounting to Rs198,483 (US\$9,905).

**4 Sales of Contraceptives**

Contraceptive products for these sales have been provided by USAID/N at no cost.

**5 Expenditure Incurred but not Reimbursed by USAID/N**

These expenditures have been accumulated from the proceeds of the sale of contraceptives and utilized to fund the expansion and eventual privatization of CRS.

THE NEPAL CRS COMPANY PVT. LTD.

Notes to the Fund Accountability Statement

6 Opening Balance

The balance of cash held at August 10, 1983 was received from Westinghouse Inc. who were responsible for administering the CRS project prior to this date.

**REPORT ON THE SYSTEM OF INTERNAL CONTROLS**

16a

your reference  
our reference**A2/GW/CRS**

Mr James B Durnil  
Regional Inspector General  
for Audit, Singapore  
US Agency for International Development  
#17-03 Peninsula Plaza  
111 North Bridge Road  
Singapore 0617

7 August 1992

Dear Mr Durnil,

**THE NEPAL CRS COMPANY PVT. LTD.  
PERTAINING TO ITS COOPERATIVE AGREEMENT WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT IN NEPAL  
INDEPENDENT AUDITORS' REPORT ON THE SYSTEM OF  
INTERNAL CONTROLS**

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- 1 We have audited the Fund Accountability Statement of the Nepal CRS Company Pvt. Ltd. ("CRS") pertaining to its Cooperative Agreement No. 367-0135-A-00-3067-00 with the United States Agency for International Development, Nepal ("USAID/N"), as it relates to the period August 10, 1983 to December 31, 1989. Funding from USAID/N continues beyond our review period under a new agreement which commenced on July 16, 1990.
- 2 This Statement, comprising the Receipts and Expenditure Statement and Revenue Account together with the closing balances for cash, receivables and payables for the Cooperative Agreement and the notes thereon, is set out on pages 12 to 16 and we have issued our report thereon dated 7 August, 1992.
- 3 Except for the matter noted in paragraph 5 of our report on page 10, we conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.



**THE NEPAL CRS COMPANY PVT. LTD.  
PERTAINING TO ITS COOPERATIVE AGREEMENT WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT IN NEPAL**

**INDEPENDENT AUDITORS' REPORT ON THE SYSTEM OF  
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- 4 In planning and performing our audit of CRS, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Statement and not to provide assurance on the internal control structure of CRS as a whole.
- 5 The management of CRS is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safe-guarded 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 the financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.
- 6 For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

Accounting Controls:

- Cash receipts
- Cash disbursements
- Payroll
- Property and equipment
- Inventory

Administrative Controls:

- Cost allocation and allowability
- Monitoring
- Reporting

**THE NEPAL CRS COMPANY PVT. LTD.  
PERTAINING TO ITS COOPERATIVE AGREEMENT WITH THE  
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**INDEPENDENT AUDITORS' REPORT ON THE SYSTEM OF  
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- 7 For all the internal control structure categories listed in paragraph 6 above, we obtained an understanding of the design of relevant policies and procedures and whether they had been in operation, and we assessed control risk.
- 8 As a result of these procedures, and in accordance with Government Auditing Standards, we limited our reliance on the internal control structure as, given the small size of the entity, an adequate structure for the purposes of audit reliance was considered not to be in existence. As a consequence, we adopted a substantive testing approach in our audit of the Fund Accountability Statement.
- 9 We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the organization's ability to record, process, summarize and report financial data, consistent with the assertions of management, in the financial statements.
- 10 Our audit revealed the reportable conditions set out in summary on page 21, and in detail on pages 22 to 45.
- 11 A material weakness is a condition in which the design or operation of the specific internal control structure element does not reduce, to a relatively low level, the risk that errors or irregularities, in amounts that would be material in relation to the Statement being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned tasks.
- 12 Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we consider that the reportable conditions annotated as 1 to 11 on page 21 are material weaknesses.

**THE NEPAL CRS COMPANY PVT. LTD.  
PERTAINING TO ITS COOPERATIVE AGREEMENT WITH THE  
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- 13 This report is intended solely for the use of USAID and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which upon acceptance by the USAID Regional Inspector General for Audit, Singapore, is a matter of public record.

  
COOPERS & LYBRAND  
Certified Public Accountants

**THE NEPAL CRS COMPANY PVT. LTD.**

**SUMMARY OF FINDINGS ON INTERNAL CONTROL**

1. No verification or inspection of contraceptives received from USAID/Nepal
2. Movements of contraceptives from the central warehouse are not reconciled to receipts by the regional warehouses
3. Repackaging process not adequately monitored
4. Monthly physical verification of contraceptives is not performed and annual physical verification was not properly documented
5. Insufficient documentation to verify sales to institutions
6. Sales revenue is not banked on a timely basis
7. Sales discounts not disclosed on invoices
8. No approval and documentation for amendments to sales targets
9. Insufficient working papers prepared to support reimbursement claims made to USAID/Nepal
10. Revenue account not properly reconciled
11. Supporting documentation not cancelled at the time of payment
12. National travel claims not supported by reports of work achieved
13. Advances for national travel not refunded
14. Payment of allowances made to third parties without an authority letter
15. Insufficient documentation for recruitment and payment to Community Based Distributors
16. No documentation for incentives paid to Driver-Promoter

**THE NEPAL CRS COMPANY PVT. LTD.**

**SCHEDULE OF FINDINGS ON INTERNAL CONTROL**

**1. NO VERIFICATION OR INSPECTION OF CONTRACEPTIVES RECEIVED**

**Condition**

When the contraceptives are received from USAID/N, the store records are updated based on the Delivery Note sent by USAID/N, and receipt is acknowledged on the Delivery Note. Physical verification and inspection of the goods received is limited to ensuring that the exterior packaging is in good condition. Sealed and intact boxes are not opened at the time of receipt to check that the commodities agree to the packing advice.

**Criteria**

CRS's Accounting Manual (Chapter IV, A.1) requires the storekeeper to physically verify the contraceptives on receipt. If any shortages/wrong packaging are noted then they should be documented on the Delivery Note which is returned to USAID/N.

**Cause**

The storekeeper was not instructed to physically verify the contraceptives before updating the stock records.

**Effect**

Any shortages/wrong packaging will not be discovered until the repackaging process and these are then treated as losses incurred during repackaging. Management is unable to determine to what extent these losses have actually occurred during the repackaging stage and as such are unable to effectively account for any losses of contraceptives on receipt from USAID/N.

**Recommendation**

The procedures as set out in the Accounting Manual should be adhered to. Any shortages/wrong packaging should be notified to USAID/N. In addition management should closely monitor the repackaging process in order that losses during this process can be minimized.

**Management's Comments**

When shipments are received from USAID/N the storekeeper examines the condition of the packaging and if found in good condition the consignment is accounted for as per the invoice from USAID/N. Any discrepancies or damaged goods are reported to USAID/N.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON INTERNAL CONTROL

2. MOVEMENTS OF CONTRACEPTIVES  
FROM THE CENTRAL WAREHOUSE ARE NOT RECONCILED

Condition

Contraceptives are despatched from the central warehouse to the regional warehouse together with a Product Despatch Form (PDF). The copy of the PDF is acknowledged by the regional warehouse and instead of being despatched to the central warehouse as evidence of receipt, is sent to the sales department.

Criteria

CRS's Accounting Manual (Chapter IV, B.2) requires the central warehouse storekeeper to get the acknowledgment of receipt from the regional warehouse.

Cause

The regional warehouse staff were not aware of the importance of returning the acknowledged PDF to the central warehouse. Further, the despatch records held by the central warehouse are also not reconciled to the regional warehouse receipts records received by the sales department.

Effect

There is no evidence available in the central warehouse to show that quantities despatched to the regional warehouses are actually received by them. At December 31, 1989, 32,000 contraceptives were listed as goods in transit and out of this amount acknowledgment was never received for 9,840 items.

Recommendation

The acknowledged PDF should be sent to the central warehouse instead of being sent to the sales department. Amounts despatched to the regional warehouses should be reconciled to the quantities acknowledged by them as being received. Reconciled quantities should be forwarded to the accounts and sales department on a monthly basis.

Management's Comments

We agree with the recommendation. To further enhance internal control the reconciliation is now performed by the Supply Officer of the Marketing Division on a monthly basis.

**THE NEPAL CRS COMPANY PVT. LTD.**

**SCHEDULE OF FINDINGS ON INTERNAL CONTROL**

**3. REPACKAGING PROCESS NOT ADEQUATELY MONITORED**

**Condition**

- (a) Contraceptives received from USAID/N are issued to the repackaging unit where they are repackaged into CRS brand containers. There is no documentation to account for the quantity of contraceptives issued for repackaging nor for the final quantity repackaged.
- (b) Significant differences have arisen between the quantity of contraceptives repackaged and the amount of repackaging material consumed. These differences have not been reconciled or investigated.

**Criteria**

CRS's Accounting Manual (Chapter V) requires the "store-in-charge" to document on a monthly basis the quantities of contraceptives both received for repackaging and despatched to finished stocks.

In addition the "store-in-charge" is also required to reconcile for each month the quantity of contraceptives repackaged to the amount of repackaging materials consumed during the month.

**Cause**

The "store-in-charge" has not been instructed to carry out such procedures.

**Effect**

As the repackaging process is not adequately monitored and differences arising are not investigated, management is not in a position to account for any stock losses during the process.

**Recommendation**

- (a) Movements of contraceptives into and out of the repackaging unit should be adequately accounted for.
- (b) The quantity of repackaging material consumed should be monitored closely and reconciled to the quantity of contraceptives repackaged during the month. Any differences arising should be investigated.

**THE NEPAL CRS COMPANY PVT. LTD.**

**SCHEDULE OF FINDINGS ON INTERNAL CONTROL**

3. **REPACKAGING PROCESS NOT ADEQUATELY MONITORED** (cont'd)

**Management's Comments**

The "store-in-charge" reconciles the quantity of contraceptives received, repacked and despatched to the closing balance on hand, and reports any shortage/excess to management on a monthly basis. No material discrepancies have been reported to to management in respect of movements of goods through the repackaging process.

**Auditors' Comments**

We could not find any evidence to support management's assertions that these procedures were carried out during the period covered by the audit.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON INTERNAL CONTROL

4. MONTHLY PHYSICAL VERIFICATION OF CONTRACEPTIVES IS NOT PERFORMED AND ANNUAL PHYSICAL VERIFICATION IS NOT PROPERTY DOCUMENTED

Condition

Monthly physical counts of contraceptives at the central and regional warehouses were not performed. We were informed that the finance department did perform physical counts at both the central and regional warehouses at each year end, but there is no documentation to support the physical counts.

Criteria

CRS's Accounting Manual requires physical inventory counts to be carried out once a month. This should be done by the storekeeper and sales representatives in the central and regional warehouses respectively. A sound accounting system requires that sufficient documentation is prepared as evidence for physical inventory counts.

Cause

The storekeeper and sales representatives were not instructed to perform the physical verification and reconcile with the book balance. CRS management was not aware of the importance of properly documenting the physical inventory counts.

Effect

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

In addition if physical quantities of inventories are not verified and reconciled on a regular basis then management are not in position to adequately safeguard assets from losses.

Further, as a result of the lack of documentation to support the quantities of contraceptives held at December 31, 1989, we were not able to determine whether all income from the sale of contraceptives had been recorded in the accounting records of the company. As a result we have accordingly qualified our audit report on the Fund Accountability Statement.

**THE NEPAL CRS COMPANY PVT. LTD.**

**SCHEDULE OF FINDINGS ON INTERNAL CONTROL**

4. **MONTHLY PHYSICAL VERIFICATION OF CONTRACEPTIVES IS NOT PERFORMED AND ANNUAL PHYSICAL VERIFICATION IS NOT PROPERLY DOCUMENTED**  
(cont'd)

**Recommendation**

The storekeeper and sales representative should be instructed to:

- (a) perform monthly counts of physical inventories of commodities at the central and regional warehouses;
- (b) reconcile the monthly counts of physical inventories to the commodity accounting records after the counts are performed and summarized;
- (c) immediately resolve any difference between the monthly physical inventory counts and the commodity accounting records.

Management should ensure that the annual physical counts are performed at the central and regional warehouses by staff independent of the function of custody and recording of the inventories. All counts should be adequately documented. We would also recommend that monthly counts at the regional warehouses are attended and observed by staff from the finance department on a periodic basis.

**Management's Comments**

Monthly inventory counts were carried out at both the central and regional warehouses by the respective staff at these locations. Annual inventory counts were carried out by Finance Division staff.

**Auditor's Comments**

These inventory counts however have not been adequately and properly documented.

**THE NEPAL CRS COMPANY PVT. LTD.**

**SCHEDULE OF FINDINGS ON INTERNAL CONTROL**

**5. NO ACKNOWLEDGMENT ON INVOICES FOR INSTITUTIONAL SALES**

**Condition**

Institutions are given discounts between 23% and 50% whereas discounts to retailers are limited to 13%. There is no evidence to support the fact that sales on which higher discounts have been given were actually made to institutions and not to retailers.

**Criteria**

Sound accounting practice requires that discounts should only be given to those who are authorized to receive them.

**Cause**

The sales representatives have not been instructed to obtain documentary evidence from institutions, when sales are made.

**Effect**

Excessive discount rates could be given to retailers who are not entitled to receive them. In addition the sales representatives could claim the higher institutional discount rates by putting the name of the institution in the invoice and actually selling to retailers and keeping the differential discount amount for themselves.

**Recommendation**

The sales representatives should be instructed to obtain the signature/stamp of the institution on the sales invoice when sales are made. A responsible officer should review the invoices periodically to ensure that the appropriate rate of discount is given to the appropriate category of buyers.

**Management's Comments**

There are only three institutions who are entitled to special discounts. These discounts have to be authorized by the Sales Manager, and payment by these institutions is required by cheque directly to the head office. As such, sufficient controls are in place to ensure that unauthorized discounts are not given by the sales representatives. The recommendation that the signature/stamp of the institution is obtained on the invoice is not in line with general business practice in Nepal.

**THE NEPAL CRS COMPANY PVT. LTD.**

**SCHEDULE OF FINDINGS ON INTERNAL CONTROL**

5. **NO ACKNOWLEDGMENT ON INVOICES FOR INSTITUTIONAL SALES (cont'd)**

**Auditors' Comments**

We further recommend that the sales manager initialize his/her approval on the sale invoice as documentary evidence of authorization.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON INTERNAL CONTROL

6. CASH SALES ARE NOT BANKED ON A TIMELY BASIS

Condition

Cash sales made by the sales representatives are remitted to the central office up to six weeks after the date of collection. The company has no policy of making credit sales.

Criteria

CRS's Accounting Manual (Chapter VII, B.5) requires the sales representatives to remit the entire sales proceeds fortnightly.

Cause

The only control over timely cash collection is the fact that if cash is not remitted by the middle of the month following the month of sale, then sales representatives risk losing part of their monthly incentive allowance. As a result, sales representatives have tended to submit the cash receipts only on a monthly basis together with the monthly sales report, instead of on a fortnightly basis with the revenue report.

Effect

Up to six weeks sales revenue is being held by each of the 10 Sales Representatives. At December 31, 1989 this amounted to Rs261,517 (US\$9,208). Of this amount Rs10,196 (US\$359) has still not been collected. This exposes CRS to an increased risk of loss through teeming and lading. There have been two instances of defalcation of revenue by sales representatives to a total amount of Rs14,493 (US\$696).

Recommendation

- (a) The sales representatives should be asked to prepare the detailed sales report on a fortnightly basis instead of a monthly basis. This report should be submitted to the finance department together with the sales proceeds for the fortnight.
- (b) The finance division should reconcile the fortnightly sales report to the details of commodity movements supplied by the central warehouse.

**THE NEPAL CRS COMPANY PVT. LTD.**

**SCHEDULE OF FINDINGS ON INTERNAL CONTROL**

6. **CASH SALES ARE NOT BANKED ON A TIMELY BASIS** (cont'd)

**Management's Comments**

During the period covered by the audit, the limited availability of facilities for remitting funds and the low level of sales has affected the collection of revenue. Both instances of defalcation of revenue were investigated by the management, brought to the attention of the Board and USAID/N, and legal action was taken.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON INTERNAL CONTROL

7. SALES DISCOUNT NOT DISCLOSED ON INVOICE/MONTHLY SALES REPORTS

Condition

The quantity of discount given to retailers for bulk purchases is not disclosed in the cash invoice or on the monthly sales report, only net sales are shown.

Criteria

The generally accepted accounting practices require that sales are recorded in the accounting records by disclosing separately amounts for gross sales, discount and net sales.

Cause

The format of invoices and monthly sales reports have not been designed to incorporate this information.

Effect

If complete disclosure of sales is not made in the accounting records then management decisions on discount policy may be made from incomplete information.

Recommendation

We have noted that CRS have incorporated this information on sales invoices and sales reports since 1990. We recommend that this practice continues.

Management's Comments

This information was incorporated on reports and invoices to strengthen the internal control structure of the company.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON INTERNAL CONTROL

8. NO APPROVAL AND DOCUMENTATION FOR AMENDMENTS TO SALES TARGETS

Condition

Sales incentives are paid to sales staff based on the achievement of targets set at the beginning of the year as submitted to USAID/N. Management have been making amendments to the original targets in the middle of the year. Such amendments were not reported to and approved by USAID/N. In addition up to 1986, no details were available in the sales department of the amendments made.

We also noted that the computer program that was used to calculate the incentive payments had been incorrectly written, so that actual sales achieved were inflated when the calculation of incentive payment was made.

Further, in 1987 and 1988 sales incentive payments were made even though sales targets had not been achieved.

Criteria

The Cooperative Agreement (Article VI, E.3) requires CRS management to submit an annual work plan to USAID/N for their approval. Any amendments made in the original work plan are supposed to be approved by USAID/N. In addition, sound internal control system requires sufficient documentation to be maintained to facilitate in the verification of correct incentive payments made to the sales staff.

Cause

The management of CRS were not aware of the need to seek approval for amended sales targets. In addition, personnel in the sales department did not appear to realise the importance of preserving these statements as supporting documents.

Effect

Incentives paid in 1985 and 1986 amounted to Rs197,012 (US\$9,461). This amount was calculated using the incorrect computer program. (Refer to Appendix A.1 item 1).

Incentives paid in 1987 and 1988 amounted to Rs459,976 (US\$22,089). These payments were made even when only 60% and 80% respectively of the sales target for the year was reached. (Refer to Appendix A.1 item 2).

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON INTERNAL CONTROL

8. NO APPROVAL AND DOCUMENTATION FOR AMENDMENTS TO SALES TARGETS (cont'd)

Recommendation

- (a) The sales department should be requested to submit amended sales targets to USAID/N for their approval.
- (b) The sales department should also provide a copy of the amended sales targets to the finance department to facilitate them in checking the accuracy of incentive payments.
- (c) The finance department should review the basis for calculating and making incentive payments and should ensure that payments are only made when targets have been achieved.

Management's Comments

- (a) Sales targets were sometimes amended after they had been submitted to USAID/N for approval as a result of feedback received from the sales staff.
- (b) No comments provided.
- (c) Incentive payments were made to staff who achieved only 60% or 80% of the sales targets in order to encourage those staff who were not able to achieve 100% of the target to achieve as high a level as possible.

Auditor's Comments

- (a) We confirm our original assessment concerning our perception that amendments to sales targets were not reported to and approved by USAID/N.
- (b) No comments.
- (c) Unless waiver from USAID/N is obtained, CRS should repay USAID/N for the excess sales incentives claimed.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON INTERNAL CONTROL

9. INSUFFICIENT WORKING PAPERS PREPARED  
TO SUPPORT REIMBURSEMENT CLAIMS MADE TO USAID/NEPAL

Condition

The finance department has been making monthly reimbursement claims from USAID/N based on figures extracted from the monthly trial balances. There are no proper working papers prepared detailing the grouping of various expense accounts under each particular budget line item claimed.

Criteria

Sound internal control system requires that sufficient working papers be prepared detailing the grouping of various expenses under budget line items, to facilitate the checking for accuracy and consistency in grouping of expenses of claims made to USAID/N.

Cause

The account headings in the trial balance do not correspond to the budget line items in the Cooperative Agreement. The reimbursement claim has to be prepared by manually extracting and regrouping the account balances. This regrouping was done without preparing supporting working papers.

Effect

In the absence of such working papers, the accuracy and consistency in grouping expenses while making the reimbursement claim may not be ensured. As a result a total of Rs6,793 (US\$326) was short claimed during the period of the Agreement.

Recommendation

The accounts in the trial balance should be redesigned so that they accord with the budget line items in the Cooperative Agreement. The figures for the claim can then be extracted directly without the need for regrouping.

Management's Comments

Apart from the minor discrepancy noted by the auditors, the company has never had any problem in submitting claims to USAID/N. Furthermore, USAID/N's audit report on CRS in 1986 approved the latter's financial recording and reporting system.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON INTERNAL CONTROL

9. INSUFFICIENT WORKING PAPERS PREPARED  
TO SUPPORT REIMBURSEMENT CLAIMS MADE TO USAID/NEPAL (cont'd)

Auditor's Comments

Should CRS continue with its present classification in its trial balance, we recommend that adequate work papers detailing the regrouping of accounts into the budget line items in the Cooperative Agreement be properly and adequately maintained.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON INTERNAL CONTROL

10. REVENUE ACCOUNT NOT PROPERLY RECONCILED

Condition

The revenue account is not reconciled to the closing balances for cash, receivables and payables on a regular basis.

Criteria

Sound internal control calls for an accounting system with proper reconciliation of balances in hand on a regular basis so that assets can be adequately safeguarded.

Cause

The accounts department were not aware of the importance of properly reconciling the revenue account with the accounts at the time of preparing the reimbursement claim.

Effect

At December 31, 1989 there was an unexplained difference of Rs6,915 (US\$243) included in the revenue account.

Recommendation

The finance department should prepare the revenue account and reconcile it with the closing balances for cash, receivables and payables before claiming reimbursement of expenses from USAID/N to ensure the accuracy of both the balance in the revenue account and the figures contained in the reimbursement claim.

Management's Comments

All sales income is reconciled to quantities sold and is agreed to amounts subsequently banked. The unexplained difference of Rs6,915 is a small sum in comparison with the total revenue collected during the period of some Rs 8 million.

**THE NEPAL CRS COMPANY PVT. LTD.**

**SCHEDULE OF FINDINGS ON INTERNAL CONTROL**

10. **REVENUE ACCOUNT NOT PROPERLY RECONCILED** (cont'd)

**Auditor's Comments**

We confirm our original assessment concerning our perceptions of the lack of periodic reconciliations being performed and adequately documented. Whilst we appreciate that the financial effect arising from this finding is immaterial, we maintain that this is a material internal control weakness as such regular account reconciliations are fundamental internal controls to ensure that there are no material misstatements in the financial statements.

**THE NEPAL CRS COMPANY PVT. LTD.**

**SCHEDULE OF FINDINGS ON INTERNAL CONTROL**

**11. SUPPORTING DOCUMENTATION NOT CANCELLED AT THE TIME OF PAYMENT**

**Condition**

Supporting documentation such as bills, invoices and vouchers were not cancelled at the time payments were made.

**Criteria**

Sound accounting practice requires that supporting documents are cancelled at the time of payment in order to prevent the documents from being represented for payment.

**Cause**

CRS Management was not aware of the benefits and importance of such a system.

**Effect**

Not cancelling supporting documentation upon payment may lead to duplicate payments being made. However we have found no instances of duplicate payments having been made.

**Recommendation**

All supporting documents should be cancelled with a "PAID" stamp upon payment.

**Management's Comments**

The practice adopted by the company is consistent with those adopted by other Nepalese companies, institutions and Government corporations. The payment vouchers are scrutinised by the accounts officer to avoid duplication.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON INTERNAL CONTROL

12. TRAVEL EXPENSES NOT SUPPORTED BY REPORTS OF WORK DONE

Condition

The travel expenses reports submitted by staff on completion of their national travel are not supported by a report stating the objectives and achievements made on their travel.

Criteria

To ensure effectiveness and efficiency within the organization, all staff should submit a report to show that travel was made for intended purposes and objectives of travel were accomplished. Further, management should analyse the cost incurred and benefit accrued from national travel.

Cause

The staff were not instructed to submit travel reports on completion of their travel.

Effect

In the absence of travel reports, it could not be established whether all national travel made was exclusively for official and intended purposes.

Recommendation

The staff should be asked to submit a brief report on completion of their travel stating the objectives and accomplishments of travel.

Management's Comments

Most travel is to conduct routine activities in accordance with the sales plan approved by the Marketing Director. The performance of this travel is reflected in the monthly sales report.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON INTERNAL CONTROL

13. ADVANCES FOR NATIONAL TRAVEL NOT RETURNED

Condition

Staff undertaking national travel are given advances to cover any expenses they incur. On their return all expense claims are submitted to the accounts department, however any balance of the advance is not refunded to CRS.

Criteria

CRS's Accounting Manual (Chapter VIII, 2) requires staff to refund any unspent advances within seven days from the date of completion of travel.

Cause

It appears that CRS management are aware of this non-compliance with the prescribed system, however, management have not issued the necessary instructions to enforce the system.

Effect

Company funds have been used for other than authorized purposes.

Recommendation

The finance department should strictly adhere to the prescribed system and ensure that no fresh travel advances are given without first settling the balance on old advances.

Management's Comments

Some frequent travellers are unable to present their expense reports due to the overlap of trips, resulting in unspent money being left in their possession. Any such amounts are not material as the entitlements are carefully calculated to ensure that there is little scope for misutilisation of company funds.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON INTERNAL CONTROL

14. PAYMENT MADE TO THIRD PERSON WITHOUT AN AUTHORITY LETTER

Condition

In the absence of community based distributors (CBD) workers the rural social marketing (RSM) supervisor has been making payment of allowances to third parties on their behalf. The payments have been made without obtaining letters of authority from the CBD worker.

Criteria

Sound accounting practice requires that payment made on behalf of staff should only be made after receiving letters of authority from the staff concerned.

Cause

The RSM supervisor apparently did not realise the importance of obtaining authority before making payment to a third party. In addition, the finance department also failed to request the authority letter when approving the payment.

Effect

In the absence of a letter of authority, the genuineness of such payments cannot be established. Furthermore such payments may be disputed by staff as never having been authorized by them.

Recommendation

The RSM supervisor should be asked to obtain a letter of authority from a CBD worker before making payment to third parties on his behalf.

Management's Comments

The only instances where payments have been made to a person other than the party concerned have been where a husband and wife have both been recruited as CBD workers and only one spouse has been available to receive payment. The recommendation that authority letters be obtained is not practical as the workers are often illiterate.

**THE NEPAL CRS COMPANY PVT. LTD.**

**SCHEDULE OF FINDINGS ON INTERNAL CONTROL**

14. **PAYMENT MADE TO THIRD PERSON WITHOUT AN AUTHORITY LETTER** (cont'd)

**Auditor's Comments**

Bearing in mind that many of CRS's workers are illiterate, we further recommend CRS issue pro-forma authority letters or official receipts acknowledging the receipt of advances to these workers for their authorization thus ensuring that proper and adequate documentation is maintained in support of these costs.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON INTERNAL CONTROL

15. INSUFFICIENT DOCUMENTATION FOR RECRUITMENT  
AND PAYMENT TO COMMUNITY BASED DISTRIBUTORS

Condition

The community based distributors (CBD) workers are directly recruited by the Deputy Director of Rural Social Marketing department during his visits to the respective districts. The rate of allowances payable to these workers varies from one district to another depending upon the geographical location of the district. These rates are decided upon by the Deputy Director. There is no documentation maintained at the central office listing the name of CBD workers, address, date of recruitment and rate of allowances payable.

Criteria

Sound internal control and personnel management practices require that the RSM department maintains a list of CBD workers, their addresses, date of appointment and allowances payable to them.

Cause

CRS management did not realise the importance of maintaining such documents and did not issue any instructions to this effect.

Effect

Unless such documents are maintained, the RSM department is not able to provide information like number of CBD workers working under various districts, their service period and amount of allowances being paid to them. This will adversely affect management in monitoring the performance of CBD workers and decision making related to the RSM program. In addition there is an increased risk of unsubstantiated payments being made.

Recommendation

The Deputy Director of RSM department should be instructed to maintain a separate personal file for each individual CBD worker, and a list of CBD workers for each district, summarizing wage rates and other personal particulars, should be prepared and updated on a regular basis.

Management's Comments

Due to the temporary status of the project at its initial inception such records were not set up.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON INTERNAL CONTROL

16. NO DOCUMENTATION FOR INCENTIVES PAID TO DRIVER-PROMOTER

Condition

Monthly sales incentives are paid to the driver-promoters based on the total quantity of direct sales sold by them in the various regions during the month. However, there is no documentation up to 1987 mentioning the total quantity of product sales during the month.

Criteria

The Accounting Manual (Chapter VI, A.3) requires that the computer division prepares statements of incentive, giving the details of monthly sales quantity of each product made by the driver-promoters, which should be used as the basis for incentive payments.

Cause

The personnel in the sales department did not realise the importance of preserving these statements as supporting documents.

Effect

Unless the statement of incentive is available, verification of incentive payment to driver-promoters cannot be made.

Recommendation

The sales department should be asked to keep the incentive statements properly, to facilitate verification.

Management's Comments

Incentives are paid based on the achievement of fixed quarterly targets. The driver's sales achievement is recorded on a standard form which is authorised by the regional sales representative. All payments are authorised by the Marketing Director.

Auditor's Comments

We could not find any evidence to support management's assertions that these procedures were in place during the period covered by the audit.

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

45a

your reference  
our reference

A2/GW/CRS

Mr James B Durnil  
Regional Inspector General  
for Audit, Singapore  
US Agency for International Development  
#17-03 Peninsula Plaza  
111 North Bridge Road  
Singapore 0617

7 August 1992

Dear Mr Durnil,

**THE NEPAL CRS COMPANY PVT. LTD.  
PERTAINING TO ITS COOPERATIVE AGREEMENT WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT IN NEPAL**

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

- 1 We have audited the Fund Accountability Statement of the Nepal CRS Company Pvt. Ltd. ("CRS") pertaining to its Cooperative Agreement No. 367-0135-A-00-3067-00 with the United States Agency for International Development, Nepal ("USAID/N"), and as it relates to the period August 10, 1983 to December 31, 1989. Funding from USAID/N continues beyond our review period under a new agreement which commenced on July 16, 1990.
- 2 This Statement, comprising the Receipts and Expenditure Statement and Revenue Account together with the closing balances for cash, receivables and payables for the Cooperative Agreement and the notes thereon, is set out on pages 12 to 15 and we have issued our report thereon dated 7 August 1992.
- 3 Except for the matter noted in paragraph 5 of our audit report on page 10, we conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained



## resident partners

Tan Swan Jeng  
Reggie M Thein  
Jonathan H E Ou  
Khoo Kum Wing  
Chew Kia Ngee  
Chan Ket Teck

Noris C G Ong  
David G Compton  
Phillip E S Tan  
Michael G Gray  
Chew Teck Soor  
Foo Tiang Sooi

Ernest T P Seow  
Jimmy K H Seet  
Lawrence K S Seet  
Edwin T S Khoo  
Leong Yit Siang  
Quek Soo Tat

Betty Khoo  
Chey Chor Wai

## directors

D Michael Fleming  
Andrew Jackomos  
Joyce Tan  
David K H Toh

**THE NEPAL CRS COMPANY PVT. LTD.  
PERTAINING TO ITS COOPERATIVE AGREEMENT WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT IN NEPAL**

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

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in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

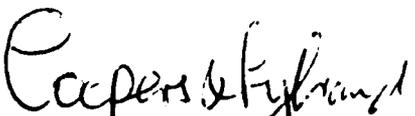
- 4 Compliance with laws, regulations, contracts, grants and binding policies and procedures applicable to CRS is the responsibility of CRS's management. As part of our audit, we performed tests on selected transactions and records of CRS for compliance with those provisions. However, it should be noted that, whilst we performed those tests of compliance as part of obtaining reasonable assurance about whether the financial statements were free of material misstatement, our objective was not to provide an opinion on compliance with such provisions.
- 5 The results of our tests of compliance disclosed instances of non-compliance with certain laws and regulations and they are set out in summary on page 49, and in detail on pages 50 to 69.
- 6 Material instances of non-compliance are violations of laws, regulations, contracts, grants or binding policies and procedures that cause us to conclude that the aggregation of misstatements resulting from these violations is material to the Fund Accountability Statement.
- 7 We consider that the instances of non-compliance annotated as 1 and 2 on page 49 are material instances of non-compliance. The effect of these material instances of non-compliance has not been adjusted for in the Fund Accountability Statement.
- 8 We considered these material weaknesses of non-compliance in forming our opinion on whether the Fund Accountability Statement is presented fairly in all material respects, in conformity with generally accepted accounting principles, and have made appropriate qualifications in our report on the Fund Accountability Statement dated 7 August 1992.
- 9 Except for the instances of non-compliance mentioned in paragraph 5 above, the results of our tests indicated that with respect to the items tested, CRS complied, in all material respects, with the provisions referred to in paragraph 4 above. With respect to items not tested, nothing came to our attention that caused us to believe that CRS had not complied, in all material respects, with those provisions.

**THE NEPAL CRS COMPANY PVT. LTD.  
PERTAINING TO ITS COOPERATIVE AGREEMENT WITH THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT IN NEPAL**

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

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- 10 This report is intended solely for the use of USAID and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the USAID Regional Inspector General for Audit, Singapore, is a matter of public record.

  
COOPERS & LYBRAND  
Certified Public Accountants

**THE NEPAL CRS COMPANY PVT. LTD.**

**SUMMARY OF AUDIT FINDINGS ON NON-COMPLIANCE**

1. Expenditure made out of revenue account without authorization
2. Advertising contracts not approved by USAID/Nepal
3. Payments to board members in excess of allowances permitted in the Articles of Association
4. Income tax paid inspite of tax exemption status
5. Commodities not insured
6. Non-adherence to specific reporting requirements
7. Recruitment of personnel not in accordance with bye laws
8. Non-adherence to recording and marking of property requirements
9. Reimbursement claims made in excess of budget line items
10. Overhead recovery rate not approved
11. Approval not taken for sales to Non-Governmental Organizations
12. General Manager's national travel not approved in accordance with personnel regulations
13. Incorrect classification of expenses
14. Other questioned amounts

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

1. EXPENDITURE MADE OUT OF REVENUE ACCOUNT NOT AUTHORIZED

Condition

CRS has made the following payments out of the revenue received from the sale of contraceptives, without obtaining approval from USAID/N for the payment amounts.

	<u>Rs</u>	<u>US\$</u>
1) Retrospective salary increases for April to December 1988	551,698	26,494
2) Expenses for March and April 1989	825,360	39,635
3) Expenses for July 16 to December 31, 1989	4,288,729	205,953
4) Defalcation of revenue	14,493	696
5) Other items	42,988	2,065
	<u>5,723,268</u>	<u>274,843</u>

Criteria

Amendment No 3 to the cooperative agreement dated January 22, 1987 stipulates that revenues received by CRS shall be used for CRS's development and expansion and other program purposes as determined by CRS and approved by USAID/N.

Effect

CRS has made expenditure for items which were not expressly authorized by USAID/N. (Refer to Appendix A.1 item 3).

In respect of items 1 to 3 agreement in principle had been received from USAID/N for the payments to be made but the amount of the expenditure actually made was never forwarded to USAID/N for approval.

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

1. EXPENDITURE MADE OUT OF REVENUE ACCOUNT NOT AUTHORIZED (cont'd)

Cause

In respect of the expenditure for which authorization in principle had been received, CRS management were not aware that authorization for the actual payment amount was required.

In respect of the defalcation of revenue, item 4, this matter was discussed at a board meeting at which a USAID/N official was present. CRS management assumed that this provided authorization from USAID/N without obtaining written approval.

The remaining items include expenditure which was disallowed by USAID/N from the reimbursement claim. As CRS had already incurred the expenditure the only way they could fund the amount was out of the Revenue Account.

Recommendation

CRS should ensure that written approval is obtained from USAID/N for all actual expenditure made out of the revenue account.

Management Comments

We were not notified by USAID/N that details of the actual expenditure made out of the revenue account, under the authority granted to us, had to be submitted to USAID/N. The expenditure was approved by the Board of Directors at a meeting that was attended by a USAID/N representative.

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

2. ADVERTISING CONTRACTS NOT APPROVED BY USAID/N

Condition

CRS has failed to get USAID approval for certain advertising contracts as required under the Cooperative Agreement and subsequent amendments. In certain cases CRS has divided advertising contracts into subcontracts to bring them under the threshold that requires approval.

Criteria

The Cooperative Agreement required CRS to obtain USAID approval for all advertising contracts as to form, content and format of the advertisement. Subsequent amendments to the Cooperative Agreement relaxed this requirement to all advertising contracts above a certain monetary value.

Effect

Where approval is not obtained USAID/N will not be able to monitor the form, content and format of the advertisements to ensure that they are in accordance with the overall objective of the Cooperative Agreement.

By splitting contracts into several smaller subcontracts CRS risk losing the benefit of bulk discounts that may be available when large advertising contracts are placed. Furthermore the splitting of contracts into smaller subcontracts may defeat the original purpose that contracts above a certain amount should be approved by USAID/N for control purposes. (Refer to Appendix A.1 item 4).

Cause

The company's advertising strategy is included in the annual operating plan which is submitted to USAID/N for approval. CRS took this to imply that advertising contracts in accordance with the operating plan had been expressly approved.

Recommendation

Where several subcontracts constitute one overall contract CRS should ensure that the individual contracts are submitted to USAID/N for approval when the total of such subcontracts exceeds the limit requiring USAID authorization. Where possible attempts should be made to place complete orders up front so that advantage can be taken of quantity discounts which are not always available when repeat orders are placed.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

2. ADVERTISING CONTRACTS NOT APPROVED BY USAID/N (cont'd)

Management's Comments

Regular advertising contracts were drawn up in the operating plan approved by USAID/N. Approval was sought for all individual advertising assignments that exceeded the threshold set by USAID/N.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

3. PAYMENTS TO BOARD MEMBERS NOT IN ACCORDANCE WITH ARTICLES OF ASSOCIATION

Condition

Payments were made to board members for their attendance at board meetings at the following rates :

	Rs	US\$
Chairman	500	24
Other board members	300	14

Criteria

The Articles of Association stipulate that payments to board members for attendance at board meetings should not exceed Rs100 (US\$5).

Effect

CRS have made payments to board members which exceeded that allowed in the Articles of Association by Rs28,000 (US\$1,345). (Refer to Appendix A.1 item 5).

Cause

The payments were approved by the board who were not aware that shareholders approval was required to amend the Articles of Association.

Recommendation

The Board and management should ensure that the terms of the Articles of Association are adhered to. Any amendments to the Articles of Association should be properly authorized by the shareholders.

Management's Comments

Recommendation is noted.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

4. INCOME TAX PAID INSPITE OF TAX EXEMPTION STATUS

Condition

CRS have earned a total of Rs1,212,628 (US\$58,233) on deposits placed with banks. From this amount income tax of Rs16,692 (US\$802) has been deducted at source.

Criteria

CRS are exempt from taxation on all income derived through the Cooperative Agreement under the authority of The Ministry of Finance. Clause 46 of attachment B to OMB circular A-122 stipulates that taxes paid from which exemption is available are non-allowable.

Effect

CRS has incurred taxation expense of Rs16,692 (US\$802) from which it was exempted. (Refer Appendix A.3).

Cause

CRS Management were not aware that a certificate of exemption could be lodged with the respective banks.

Recommendation

CRS should register their certificate of exemption with all banks at which they maintain an account. Back claims for the amount of taxation deducted at source should be submitted to the Department of Taxation.

Management's Comments

Recommendation is noted. Appropriate action has been taken.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

5. COMMODITIES NOT INSURED

Condition

CRS have not maintained insurance for the contraceptives supplied to them by USAID/N.

Criteria

The Cooperative Agreement requires CRS to maintain adequate insurance for all materials, parts, supplies and equipment that have been acquired or allocated under the agreement.

Effect

Without adequate insurance of commodities any loss would be borne by USAID/N which exposes them to an unnecessary risk of increased costs.

Cause

CRS's regular insurance company refused to provide cover for the commodities. No attempt was made by CRS management to approach other insurers for the necessary cover.

Recommendation

CRS should discuss with USAID/N the need for obtaining insurance cover, in particular whether the cost of obtaining such insurance cover would outweigh the risk to which CRS and USAID/N are exposed.

Management's Comments

Necessary action will be taken to obtain insurance cover.

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

6. NON-ADHERENCE TO SPECIFIC REPORTING REQUIREMENTS

Condition

CRS did not adhere to the requirement to submit a quarterly evaluation report on the Rural Social Marketing program.

Criteria

Amendment No 4 to the cooperative agreement requires CRS to submit the quarterly report evaluating the progress made on the Rural Social Marketing program.

Effect

USAID/N were not able to monitor the progress of the Rural Social Marketing program. In particular the non-achievement of certain key targets of the program was not reported to USAID/N.

Cause

CRS management were not aware of the requirement to submit such reports. In addition in our review of reports received at USAID/N we noted that there was no evidence that they had been reviewed or approved.

Recommendation

CRS should ensure that all reporting requirements of the Cooperative Agreement are adhered to. Furthermore we recommend that USAID/N closely monitor the reports that are received from CRS and follow up promptly on any missing reports.

Management's Comments

All the activities of the company, including the RSM program, are communicated to USAID/N in the quarterly report.

**SCHEDULE OF FINDINGS ON NON-COMPLIANCE**

7. **RECRUITMENT OF PERSONNEL NOT IN ACCORDANCE WITH BYE LAWS**

**Condition**

Of the 68 personnel employed at December 31, 1989, 18 are employed under temporary "Personal Service Agreements" (PSA). These employees were appointed by the General Manager without advertising the position and without competition. They were all employed under PSA's for an initial period of 6 months which have since been extended for further 6 month periods up to in some cases almost 4 years.

A further 10 employees were initially recruited under renewable 6 month PSA's but were subsequently given full time employment contracts once they had gained the necessary experience under the PSA's. The full time position was advertised but the incumbency was automatically awarded the post as they were the only candidate that had the necessary experience.

**Criteria**

The Company's Bye Laws specify conditions governing the recruitment of permanent employees. These conditions include the following requirements;

- all positions should be advertised in local media
- a committee shall be formed to supervise the interviewing, testing and screening of all applicants.

Only in exceptional circumstances does the General Manager have the capacity to appoint temporary personnel, eg to fill a casual vacancy.

**Effect**

By not adhering to the recruitment policies laid down in the Bye Laws CRS have exposed themselves to the risk of employing inadequately qualified and inappropriate personnel.

**Cause**

The employment of personnel on renewable 6 month PSA's was done partly to avoid time and expense incurred in adhering to the conditions laid down in the Bye Laws. In addition, some staff were hired for specific projects such as the RSM project. As the project lives were not known at the outset of the project, staff were hired on temporary contracts which were renewed as and when necessary.

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

7. RECRUITMENT OF PERSONNEL NOT IN ACCORDANCE WITH BYE LAWS (cont'd)

Recommendation

CRS should review their recruitment policies and manpower requirements with USAID/N so that a workable recruitment policy can be drawn up. Once the policy has been established it should be strictly adhered to.

Management's Comments

Due to the temporary status of such projects as the RSM program, staff are recruited under temporary PSA's. Staff under PSA's were only appointed to full time posts after undergoing intensive written and oral tests.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

8. NON-ADHERENCE TO RECORDING AND MARKING OF PROPERTY REQUIREMENTS

Condition

CRS have not maintained a property recording system containing details of identification number, price, location and disposal for all items of property received under the Cooperative Agreement.

In addition such property has not been marked either with its identification number or a label indicating that it is property of the US Government, nor has it been physically verified on a periodic basis.

Criteria

Clause 15 of the standard provision of the Cooperative Agreement requires that a property control system should be maintained and submitted to USAID/N for approval. It is also a requirement of this clause that all such property shall be clearly marked with its serially controlled identification number and a label indicating that it is property of the US Government.

Effect

CRS do not have the necessary means to ensure that property provided under the agreement is properly controlled and safeguarded.

Cause

CRS management were not aware of the requirement to maintain a property control system and the property marking requirements.

Recommendation

CRS should establish and submit to USAID/N for approval a property control system that complies with the standard provisions of the agreement. All property funded under the agreement should be appropriately marked.

Management's Comments

Since the inception of the company all property received or procured has been recorded. Following the recommendation property marking labels will be requested from USAID/N.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

9. CLAIMS IN EXCESS OF BUDGET

Condition

CRS has claimed and been reimbursed for amounts which exceeded its budgeted allowance set out in amendments to the Cooperative Agreement, without obtaining prior approval from USAID/N.

<u>Amendment</u> <u>Number</u>	<u>Budget</u> <u>Line item</u>	<u>Budget</u> <u>Amount</u> Rs	<u>Actual</u> Rs	<u>Excess</u>	
				Rs	US\$
9	Administration	4,628,583	4,730,877	102,294	4,912

Criteria

The Cooperative Agreement stipulates that funds are to be administered in accordance with the financial plan. Subsequent amendments permit a budget line item to be exceeded by up to 15% without constituting an amendment to the financial plan. This clause was removed in amendment No 9 by the Contracting Officer, with the intention to restrict CRS's expenditure to the budget amounts in the financial plan.

Effect

The financial plan has been exceeded without prior approval from USAID/N. At the end of the agreement 1 budget line item was exceeded by a total of US\$ 4,912. (Refer to Appendix A.1 item 6).

Cause

The excess occurred as a result of CRS interpreting the removal of the 15% clause to mean that budget line items could be exceeded without limit. This interpretation was also concurred with by the USAID/N Project Officer.

Recommendation

CRS should more closely monitor budget allowances against actual expenditure to ensure that such excess expenditure does not recur. Any amendment to the Cooperative Agreement should be discussed with the Contracting Officer to ensure that the correct interpretation is known.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

9. CLAIMS IN EXCESS OF BUDGET (cont'd)

Management's Comments

No approval for the excess expenditure under the administration line item was sought as the "15% clause" had been deleted in amendment no. 9 and the total budget was not exceeded.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

10. OVERHEAD RECOVERY RATE NOT APPROVED

Condition

Direct costs relating to the sale of oral rehydration salts ("ORS") products are recovered from UNICEF from sales revenue. All indirect costs of ORS products have been treated as direct costs under the Cooperative Agreement and have been claimed from and reimbursed by USAID/N.

An overhead recovery rate was used to recover indirect overheads from ORS revenue based on the relative sales of ORS products and contraceptives. The rate used was not approved by USAID/N and moreover was calculated on the basis of relative revenues and not on relative costs of the two separate functions. The overheads recovered have been credited to the revenue account and have not been used to reduce the costs reimbursed by USAID/N.

Criteria

The Cooperative Agreement stipulates that only costs incurred in carrying out the purposes of the grant shall be reimbursed. OMB Circular A-122 requires that an overhead recovery rate should be used to recover indirect costs on the basis of the relative costs of the separate functions of an organization.

Any overheads recovered should be offset against the expenses claimed from USAID/N.

Effect

Overheads recovered amounting to Rs76,869 (US\$3,691) have been credited to the revenue account of CRS instead of reducing the amount of costs reimbursed by USAID/N.

Cause

CRS management were not aware of how the indirect costs and recovery rate should be calculated or accounted for.

Recommendation

CRS should agree with USAID/N upon a method for recovering overheads from ORS sales. If the revenue from ORS sales is insufficient to recover these overheads then negotiations should be made with UNICEF to increase the funding for the ORS project.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

10. OVERHEAD RECOVERY RATE NOT APPROVED (cont'd)

Management's Comments

New proposals are being developed for cost recovery and these will be discussed with USAID/N.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

11. APPROVAL NOT TAKEN FOR SALES TO NGO'S

Condition

CRS have made sales to non-governmental organizations (NGO's) without obtaining authorization from USAID/N.

Criteria

Amendment No.5 to the Cooperative Agreement requires that before any commodities are provided to an NGO, CRS must satisfy USAID/N that the NGO complies with AID population policy.

Effect

CRS may have supplied commodities to enterprises that do not adhere to AID population policy guidelines.

Cause

CRS management were not aware of the types of organizations that this requirement covered.

Recommendation

CRS should obtain authorization from USAID/N before supplying organizations other than retail outlets so as to enable USAID/N to ascertain if those organisation have appropriate population policy guidelines which adhere to AID regulations.

Management's Comments

To our knowledge the NGO's to which contraceptives were supplied comply with USAID population policy.

THE NEPAL CRS COMPANY PVT. LTD.

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

12. GENERAL MANAGER'S NATIONAL TRAVEL NOT APPROVED IN ACCORDANCE WITH PERSONNEL REGULATIONS

Condition

The General Manager's national travel has not been approved by the Chairman as required in the company's personnel regulations.

Criteria

The personnel regulations, as submitted to and approved by USAID/N, require that all national travel undertaken by the General Manager should be approved by the Chairman.

Effect

The board of directors have not been in a position to monitor the effectiveness of national travel undertaken by the General Manager.

Cause

CRS Management were not aware of this requirement.

Recommendation

CRS management should establish procedures to ensure that prior approval of the General Manager's national travel expenditure is obtained.

Management Comments

It was not deemed practical nor necessary to obtain written approval for the regular trips undertaken by the General Manager, however verbal approval was always sought.

THE NEPAL CRS COMPANY PVT. LTD

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

13. INCORRECT CLASSIFICATION OF EXPENSES

Condition

Certain items of expenditure amounting to Rs372,296 (US\$17,878) were classified to the wrong account heading in the accounting records. This incorrect information was then used to prepare the monthly reimbursement claims submitted to USAID/N.

Criteria

CRS are required to submit monthly reimbursement claims to USAID/N detailing the actual expenditure incurred under each budget line item.

Cause

These misclassifications occurred as a result of posting errors by the accounts department.

Effect

USAID/N have not been able to effectively monitor CRS's actual expenditure. The effect of correcting these misclassifications is illustrated as follows :

	Fund Accountability Statement (Incorrect Information)		Actual Expenditure (Correct Information)	
	Rs	Rs	Rs	US\$
Personnel costs	7,747,650	7,747,650		372,058
Sales expenses	4,203,277	4,051,510		194,562
Rural Social marketing	769,828	769,828		36,969
Communication	12,134,788	12,108,347		581,468
Training	998,308	1,198,327		58,408
Administration	4,730,877	4,767,963		228,967
Other direct costs	447,665	388,768		18,669
	<u>31,032,393</u>	<u>31,032,393</u>		<u>1,491,101</u>

THE NEPAL CRS COMPANY PVT. LTD

SCHEDULE OF FINDINGS ON NON-COMPLIANCE

13. INCORRECT CLASSIFICATION OF EXPENSES (cont'd)

Effect (cont'd)

If the Fund Accountability Statement were to be adjusted, an additional budget line item would be exceeded, giving in total 2 budget line items exceeded by US\$ 14,860 (i.e. an additional US\$ 9,948 to that noted in finding 9 on page 53) for the period covered by the audit. (Refer to Appendix A.1 item 6).

Recommendation

The management of CRS should draw up guidelines to be included in the accounting manual indicating which expenses should be included within each account heading. The guidelines should be carefully followed by the accounts staff.

Management's Comments

The reclassification of expenses would not affect the amounts already reimbursed by USAID/N.

THE NEPAL CRS COMPANY PVT. LTD

SUMMARY OF AUDIT FINDINGS ON NON-COMPLIANCE

14. OTHER QUESTIONED AMOUNTS

Condition

During the course of our audit, we came across certain other amounts which we considered to be questioned costs. The details of these amounts totalling Rs1,434,680 (US\$68,896) are set out in Appendix A.2.

Criteria

The basis for questioning each item is set out in Appendix A.2.

Effect

CRS have claimed costs totalling Rs1,434,680 (US\$68,896) which may be disallowable. (Refer to Appendix A.1 item 7).

Cause

CRS have overlooked certain USAID guidelines and Agreement requirements in relation to these amounts.

Recommendation

We recommend that CRS review the amounts we have considered as questionable, discuss them with USAID/N in order that they can be resolved.

In addition CRS should ensure that management are familiar with the requirements of USAID guidelines and the Cooperative Agreement in order that similar oversights do not recur.

Management's Comments

- (a) The items are being followed up with USAID/N officials.
- (b) It is a customary practice of Nepalese business organizations to place advertisements to congratulate the Royal Family and to greet eminent visitors and hence this expenditure was incurred in the normal course of business.

**THE NEPAL CRS COMPANY PVT. LTD.**  
**QUESTIONED COSTS AS TO**  
**REASONABLENESS, ALLOWABILITY AND ALLOCABILITY**

<u>Finding</u>	<u>Condition</u>	<u>Basis for Questioning</u>	<u>Amount Rs</u>	<u>Equivalent US\$</u>
<u>Internal Control</u>				
1	Finding 8 Sales incentives paid not in accordance with approved rates	Allowability - not approved by USAID/N	197,012	9,461
2	Finding 8 Sales incentives paid when targets not reached	Allowability - payments not justified	459,976	22,089
			656,988	31,550
<u>Non-Compliance</u>				
3	Finding 1 Expenditure made out of revenue without approval	Allowability - expenditure not approved by USAID	5,723,268	274,843
4	Finding 2 Advertising contracts not approved in advance by USAID	Allowability - agreement requires advance approval	1,141,958	54,839
5	Finding 3 Payments made not in accordance with Articles of Association	Allowability - company not empowered to make payments	28,000	1,345
6	Finding 9 and 13 Claim and reimbursement of amounts in excess of budget limits	Allowability - excess budget claims	102,294 207,152	4,912 9,948
			309,446	14,860
7	Finding 14 Other questioned costs	Refer Appendix A.2.	1,390,672	66,782
			<u>9,250,332</u>	<u>444,219</u>

**THE NEPAL CRS COMPANY PVT. LTD.  
QUESTIONED COSTS AS TO  
REASONABLENESS, ALLOWABILITY AND ALLOCABILITY**

<u>Item</u>	<u>Condition</u>	<u>Basis for Questioning</u>	<u>Amount Rs</u>	<u>Equivalent US\$</u>
<u>Finding 14</u>				
Rural Social Marketing	Duplicate payment made on two separate vouchers for allowances for May 1987	Allocability - payment made twice	1,800	86
Administration	International travel reimbursement claimed at rates higher than that incurred	Reasonableness staff have been reimbursed in excess of expenses incurred	10,661	512
Administration	International travel claims made in excess of per diem allowances	Allowability - costs claimed not in accordance with the agreement	12,289	590
Administration	National travel claims include food and lodging in addition to per diem allowance	Allowability - per diem allowance should cover food and lodging	4,894	235
Administration	National travel claims for per diem not approved	Allowability - costs not approved	3,448	166
Administration	Taxi hire claimed for General Manager when vehicle is provided for him	Allocability - GM's vehicle had been lent to the Ministry of Health	1,800	86
All	Expenses relating to the period prior to the Agreement	Allowability - only expenses after August 1, 1983 are allowable	15,843	761

**THE NEPAL CRS COMPANY PVT. LTD.  
QUESTIONED COSTS AS TO  
REASONABLENESS, ALLOWABILITY AND ALLOCABILITY**

<u>Item</u>	<u>Condition</u>	<u>Basis for Questioning</u>	<u>Amount Rs</u>	<u>Equivalent US\$</u>
<b>Finding 14 (cont'd)</b>				
Advertising	Commission paid to advertising agencies for procurement	Reasonableness - these services could be carried out by CRS staff	225,037	10,807
Advertising	Birthday greetings for Royal family and similar adverts and greetings	Allocability - costs are ancillary to the purpose of the Agreement	326,921	15,700
Advertising	Agency invoices for media advertising are not supported by original invoices from the media	Allowability - insufficient supporting documentation	650,791	31,252
Honorarium	Sundry costs charged including food and transport	Allowability - food and transport can only be claimed through per diem	2,534	122
Market Research	Cost for market research for ORS products have been claimed	Allowability - costs do not relate to the Agreement objectives	12,625	606
Public Relations	Unsupported donations, and meeting costs to discuss privatization of the Company	Allocability - costs are ancillary to the Agreement objectives	18,282	878

**THE NEPAL CRS COMPANY PVT. LTD.  
QUESTIONED COSTS AS TO  
REASONABLENESS, ALLOWABILITY AND ALLOCABILITY**

<u>Item</u>	<u>Condition</u>	<u>Basis for Questioning</u>	<u>Amount Rs</u>	<u>Equivalent US\$</u>
<u>Finding 14</u> (cont'd)				
Consultancy	Payments made to lawyer when CRS had other legal advisors on retainer basis	Reasonableness - services could have been provided under retainer	4,000	192
Consultancy	Payments made for reports/advice with no evidence of work received	Allowability - insufficient documentation	62,190	2,986
Other Direct Costs	Non-business books and periodicals have been purchased and subscribed to	Allowability - only business related books and periodicals are permitted	28,181	1,353
Other Direct Costs	Reimbursement has been claimed for provisions for staff costs which have not actually been incurred	Allowability - claims can only be made for costs actually incurred	9,376	450
			1,390,672	66,782

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## THE NEPAL CRS COMPANY PVT. LTD.

FINDINGS NOTED FOR CONSIDERATION AS TO GRANT EFFICIENCY

<u>Finding</u>	<u>Condition</u>	<u>Amount Rs</u>	<u>Equivalent US\$</u>
4	Income tax has been suffered on interest earned, despite exemption	16,692	802
		<u>16,692</u>	<u>802</u>

**THE NEPAL CRS COMPANY PVT. LTD.**  
**STATEMENT OF INVENTORY MOVEMENTS**  
**FOR THE PERIOD AUGUST 10, 1983 TO DECEMBER 31, 1989**

	<u>Condoms</u> <u>Unit</u>	<u>Pills</u> <u>Cycle</u>	<u>Foaming Tablet</u> <u>Unit</u>	<u>Total</u> <u>CYP's</u>
Opening stock	307,598	132,811	164,293	14,935
Net receipts from USAID	30,841,494	1,044,386	2,063,803	409,390
	<u>31,149,092</u>	<u>1,177,197</u>	<u>2,228,096</u>	<u>424,325</u>
Sales and samples	(22,582,257)	(899,196)	(2,132,247)	(316,314)
Shortage and replacement	(20,259)	(17,216)	(4,388)	(1,571)
Closing stock	<u>8,546,576</u>	<u>260,785</u>	<u>91,461</u>	<u>106,440</u>

**Notes**

- (1) The opening stock was handed over by Westinghouse Corporation who were previously responsible for administering the CRS project.
- (2) One CYP represents a "couple year protection" and is equivalent to 100 condoms or 13 cycles of pills or 100 foaming tablets.

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**APPENDIX C**

Tel: 4-12000  
4-12673  
Gram: DHAAL  
Telex: NP 2205 AAPU  
C/o Annapurna Hotel

नेपाल सि. मार. एल. कम्पनी (प्रा.) लि.  
**Nepal Contraceptive Retail Sales (CRS) Company (P) Ltd.**  
( A Non-Profit Social Marketing Company )  
Hattisar (Naxal), P. O. Box 842, Kathmandu, Nepal.

Ref NoCRS/92/208

Date: 29 July 1992

Fax No. 3362539 or 3390048

Mr. Graham Whittaker  
Coopers & Lybrand  
Singapore

Re : Our Observation on your draft  
Project closeout audit report  
of CRS Co. for the period 1983  
to 1989

Dear Mr. Graham,

We have received your captioned draft report and thank you very much for inviting us to give our comments and observations thereon. We appreciate your observations and recommendations and keeping in view the small entity like ours we firmly believe that these will help further strengthening our internal control procedures.

However, some of the comments made in your report do not make fair presentation of the facts as procedures followed by us. We assume that this may have resulted due to inadequate explanation or information received by you during the course of the audit. Now, we have carefully examined all the facts contained in your report and our observations thereon are enclosed herewith. Copies of relevant documents are also enclosed for your perusal.

We request you to examine the facts and figures now supplied which were also explained to you during the course of the audit and at exit conference held at USAID in May 26th, 1992. We will appreciate kindly incorporating these facts in your final report by deleting, revising or amending the relevant sections of your draft report.

Besides these we have indicated some other minor issues to Mr. Chitracar which we hope have been already transmitted to you.

Enclosures are forwarded to M/s K.B. Chitracar & Company and to you thru DHL.

Thank you for your co-operation and assure you of our highest consideration as ever.

Sincerely yours,

  
Rajendra P. Singh  
Managing Director

C.C :

- Ms. Ursula Nadolny  
Acting Chief  
HFP Office  
USAID/Nepal
- Mr. Homi Jamshed  
Controller  
USAID/Nepal
- Mr. K.B.Chitracar

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Comment on your opinion on Audit Results Page 5 and 6

A. Opinion on the Fund Accountability Statement (page 5)

1. Stock taking of company's inventories was taken on time in accordance to the framework of the company's policy, and also submitted to the auditors with our certification. The statement made in the audit report that the auditors could not verify the stock as on Dec. '989 in our opinion doesn't permit to conclude that sales were not correctly recorded.

Sales and stocks position were checked by the respective independent auditors licensed the Auditor General of Nepal of those periods for which we had already presented the financial statement as well as audit reports to you. In view of these facts, your opinion on sales doesn't reflect the true picture on sales transaction.

2. The questioned cost amounting to US \$ 469,734.00 also includes US \$ 274,843.00 which was spent out of CRS revenue fund in compliance with rules and regulation as well as USAID guidelines.

B. System of Internal Controls (page 6)

In view of the small entity of the Company as reflected in the audit report, the internal control system is effective and developed within the frame work of rules and regulations. Furthermore, our bye-laws, accounting manual and internal control system has been approved by USAID. The existing control system has also been reviewed by SOMARC Financial Consultant, Ms. Maggie Huff and has expressed her satisfaction to the system.

## INTERNAL CONTROL

### FINDING 1

#### NO VERIFICATION OR INSPECTION OF CONTRACEPTIVES RECEIVED

As pointed out in the audit report, the accounting manual has clearly identified the responsibility of the storekeeper to verify the goods received by him which is a management instruction to the storekeeper requiring him to carry out the assigned job as outlined in the manual.

Please note that the following store procedures in regard to receipt of material are carried out as a matter of routine. When the shipment is received in the stores the storekeeper examines the condition of packaging and if found in good condition it is accounted for as per invoice.

In case of damaged cartons, the material is fully inspected, counted and verified and shortage reported to USAID for insurance claim. We would like to draw the attention of the auditor to the fact that the USAID has been advised of short/damaged consignment when received so. In support of this, we enclose two delivery challan issued by Nepal carriers (P) Ltd. Where details of damages/shortages are mentioned. Both the cases were reported to USAID for necessary action.

### FINDING 2

#### MOVEMENTS OF CONTRACEPTIVES FROM THE CENTRAL WAREHOUSE ARE NOT RECONCILED

Auditors recommendation that a copy of Product Despatch Form (PDF) should be returned to Central Warehouse in acknowledgement of receipt of goods by the regional warehouses. We agree to auditors' recommendation which is consistent with the CRS practise. However, to avoid confusion in the store and to enhance internal control, responsibility of the reconciliation of goods movement was transferred to Finance Division and later to Supply Officer of Marketing Division.

The concerned Sales Representative is required to send report on movement of stock at the end of each month giving following details

- a) Balance at the beginning of the month
- b) Goods received during the month
- c) Goods sold during the month
- d) Shortage/ damages if any
- e) Balance at the end of the month.

The supply officer reconciles the quantity despatched by the central warehouse and the quantity received at regional warehouse and in case of any discrepancy investigation and appropriate action is initiated. (See enclose monthly report)

The Sales Representative required to verify physically the stock balance with the monthly stock report before it is sent to Marketing Division at Central Office.

The cited example of 32,000 units of condoms shown lost in transit in the audit report were in fact in-transit at the year end and were received by Sales Representative during the ensuing financial year. The said receipt could also be verified with the schedule attached to audited balance-sheet of 31 December 1990 where it is clearly stated (Copy enclosed). Thus, these facts prove no loss to the company and the process of reconciliation appears effective.

### FINDING 3

#### REPACKAGING PROCESS NOT ADEQUATELY MONITORED

The responsibility of receiving the bulk suppliers of contraceptives, its subsequent issue for repackaging and reconciliation of quantities repacked, issued and balance in hand is vested with the store-in-charge. The repackaging monitor is responsible to verify the quality of repackaged material. Since the repackaging monitor is a menial staff (level III), it cannot be entrusted with the responsibility of safe custody and reconciliation of store material.

The Store-in-Charge, on a regular basis, reconciles the quantity of contraceptives received, repacked, despatched and balance in hand. Any shortage/excess are reported to the management monthly. No material discrepancy has been reported to the management either by the Store-in-Charge or the independent auditors in respect to goods movement from store to repackaging room and back to store.

### FINDING 4

#### MONTHLY PHYSICAL VERIFICATION OF CONTRACEPTIVES IS NOT PERFORMED AND ANNUAL PHYSICAL VERIFICATION IS NOT PROPERLY DOCUMENTED

Physical inventory counts are carried out both at the central as well as regional warehouse every month, and a report to this effect is also prepared by the respective staff at the end of each month and presented in monthly sales statement. Furthermore, physical inventory counts are also carried out by the authorised personnel from Finance Division as well as independent auditors (see audit report attached in respect of Q. No. 2) at the end of the Financial year and the inventory position of the commodities is reflected in the company's annual audited Balance Sheet.

Each audited Balance Sheet includes a schedule of movement of contraceptives which also clearly indicates excess and shortage of materials (See attachment in respect of Q.No. 1). Without physical verification it would not have been possible to identify the quantum of such excesses or shortages. In addition, it should be noted that the company has been recovering the cost of such short materials from the Storekeeper as well as Sales Representatives. This built-in system of internal control reassures the verification process by the concerned staff to protect themselves from being penalized and thus further strengthening internal control system.

#### FINDING 5

##### NO ACKNOWLEDGEMENT OF INVOICES FOR INSTITUTIONAL SALES

Please note that there are only 3 institutional buyers who were entitled to a special discount.

Institutions enjoying such special discount are required to make special arrangement with the Sales Manager who authorises such sales. Sales Representatives are not authorised to make any sales directly to the institution. Moreover, these institutions require to make payment by cheque directly at the head quarter to Finance Department. It is therefore, not possible for the Sales Representative to allow higher discount to non-authorized retailers. The internal control is operating quite well and unless the transaction in the category increases substantial the present system of sales is considered reasonable.

The auditor suggestion that the seal and signature of the concerned institution be obtained on invoice seems to be not in line with general business practices in Nepal.

#### FINDING 6

##### CASH SALES ARE NOT BANKED ON A TIMELY BASIS

During the audited period, the sales volume being small as well as the availability of the limited fund remitting facility in the field, fortnightly deposite policy was established and followed accordingly.

However, in 1989, the company faced a serious management crises and the sales plunged down as such during this period the revenue deposits were allowed on monthly basis.

During last 8 years of operation of CRS, there has been no evidence of any defalcation except Rs. 14,493 as cited in the report which was investigated by the management and Legal action was taken. The matter was also discussed in the Board Meeting No. 32 in presence

of USAID and subsequently it was written off by the Board of Directors. The second case of Rs. 10,196.00 remains outstanding with the institution taking credit from CRS and it has not been the case of defalcation and the concerned staff has been made liable for its recovery and being followed of for realization.

#### FINDING 7

##### SALES DISCOUNT NOT DISCLOSED IN INVOICES/MONTHLY SALES REPORTS

CRS, since its inception has passed through different legal status and the management is always in a look out for bringing appropriate changes to strengthen its operation. The cited example evidently proves the built in dynamism in the management of the company. The continuation of process set as well as incorporation of various changes required for strengthening the internal control is looked upon as continuous process with CRS management.

#### FINDING 8

##### NO APPROVAL AND DOCUMENTATION FOR AMMENDMENTS TO SALES TARGETS

The cooperative Agreement (Article No. VI E3) required CRS to present annual work plan as information of activities to USAID. Work plan included sales projection and incentive policy besides other activities (enclosed is a copy of work plan 1987 and 1988 for your reference).

Following the trend set from the Westinghouse period the targets were set by CRS management within the guide lines of USAID at the beginning of the year.

Work plan included sales projection incentive policy etc prepared and forwarded to USAID for their information. Sales projections (targets) were sometimes ammended following the request/feedback received from the sales staff in the Semi annual conference to make it realistic.

Since the inception of the company it had followed the policy of giving incentive to staff involved in sales. The provision of giving incentives at less than 100% is reflected in the Plan of Operation enclosed. During the year 1987 and 1988, CRS provided incentive for sales exceeding 60% and 81%. The objective of paying Sales Incentive to Sales Staff is to achieve the Company's Sales Target therefore, sales incentives were paid starting from the 60% achievement level so that those who were not really able to achieve 100% may not completely drop the sales out of disappointment. As such, incentive payment has been made in accordance with the management policy.

C8 HAS NOT BEEN USED

C8

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## FINDING 9

### INSUFFICIENT WORKING PAPERS PREPARED TO SUPPORT REIMBURSEMENT CLAIMS MADE TO JSAID/NEPAL

The company's accounting system was approved by USAID/Nepal vide letter dated July 23, 1986 (copy enclosed). Further, the USAID letter of October 1, 1986 has also stated that " we are well acquainted with that system (CRS) but also by virtue of having received and carefully scrutinized your precise and timely reports on the expenditure of funds under the Co-operative Agreement each month for the past 3 years. We also note that Maggie Huff, an AID-funded financial consultant, pronounced CRS's accounting systems quite sound and that USAID's own audit noted that " the company has a generally acceptable financial recording and reporting system".

The above statement is self evidentiary of sound accounting system adopted by the company which was also approved by USAID. However, during the initial year of company's operation, the staffs were being trained in the new system and therefore, an error of short claim of Rs. 6793.00 as pointed out in the audit report occurred inadvertently. Keeping the minor nature of error, it would not be justifiable to generalize that insufficient working papers prepared to support reimbursement claims made to USAID. And, to this effect CRS never had any problem with the USAID nor during independent audit of the company conducted by class I independent auditors appointed by shareholders each year since 1983. Attached please find worksheet for the disbursement of claim for USAID.

## FINDING 10

### REVENUE ACCOUNT NOT PROPERLY RECONCILED

The statement that "revenue account is not reconciled" in our opinion does not reflect the company's accounting process truly. The company has a well defined accounting procedure regarding sales, collection and deposit of revenue. All the sales are correlated with the quantity and value and subsequently compared and tallied with amount received and cash deposited. Short collection of cash is required to be reimbursed by employee in default. Similar treatment is made in respect of stores shortage as mentioned in section 4 of this report earlier.

The unexplained difference of Rs. 6,915 as pointed out in the audit report is based on the global figure of sales cumulated for 5 years. During this period, company's total income was Rs. 8 million. As per our record all such transactions are periodically reconciled and no difference has been observed.

WORKSHEET FOR THE DISBURSEMENT UNIT  
FOR THE MONTH OF \_\_\_\_\_ 19\_\_

-----

LINE ITEMS -----		AMOUNT -----
I. PERSONNEL		0.00
Salaries & Benefits:		
-----		0.00
6.01 Salaries	0.00	
6.02 Allowances	0.00	
6.03 Provident Fund	0.00	
7.01 Salaries	0.00	
7.02 Allowances	0.00	
7.03 Provident Fund	0.00	
8.01 Salaries	0.00	
8.02 Allowances	0.00	
II. SALES/COMMUNITY INCENTIVE		0.00
6.05 Sales Incentive	0.00	
8.08 Incentive	0.00	
III. TRAVEL COST/PERDIEM		0.00
6.06 Travelling & Perdiem	0.00	
7.05 Travelling & Perdiem	0.00	
8.05 Travelling & Perdiem	0.00	
IV. PROGRAM COSTS		0.00
Advertising & Sales Promotion:		0.00
-----		
6.10 Advertising	0.00	
6.11 Sales Promotion	0.00	
6.16 Public Information	0.00	
8.10 Advertising & Sales Promotion	0.00	
6.13 Market Research		0.00
Repackaging Materials:		0.00
-----		
5.02 Repackaging Material	0.00	
5.03 Repackaging Labor	0.00	
5.04 Transportation	0.00	
5.05 Packaging Material	0.00	
V. TRAINING		0.00
6.12 Sales Training/Conference	0.00	
Initial & Refresher/Supervision:		0.00
-----		
8.03 Retraining & Supervision	0.00	
8.11 Training/Conference	0.00	
Local/Retailers:		0.00
-----		
6.14 Retailers' Training	0.00	
7.16 Personal Training	0.00	

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VI. INSURANCE		0.00
7.13 Insurance/Personnel	0.00	
7.14 Insurance/Others	0.00	
VII. VEHICLE RUNNING COST		0.00
6.08 Vehicle Running Cost	0.00	
7.21 Vehicle Running Cost	0.00	
8.06 Vehicle Running Cost	0.00	
VIII. ADMINISTRATIVE		0.00
Equipment/Furniture:	0.00	
-----		
2.02 Furniture	0.00	
2.03 Equipment	0.00	
2.04 Computer Equipment	0.00	
2.05 Vehicle	0.00	
2.06 Equipment/Furniture(Expendable)	0.00	
8.04 Office Supply	0.00	
Office & Computer Supplies:	0.00	
-----		
7.06 Printing & Stationary	0.00	
7.07 Books & Periodicals	0.00	
7.15 Computer Expenses	0.00	
8.09 Printing & Stationary	0.00	
Utilities/Office Rental:	0.00	
-----		
6.07 Rental	0.00	
6.09 Communication	0.00	
7.08 Communication	0.00	
7.09 Utilities	0.00	
7.10 Rental	0.00	
7.11 Repair & Maintenance	0.00	
8.07 Rental	0.00	
8.12 Repair & Maintenance	0.00	
IX. OTHER DIRECT COSTS		0.00
6.15 Transportation & Porterage	0.00	
7.17 Board Meeting & Conference	0.00	
Other Costs:	0.00	
-----		
7.12 Bank Commission	0.00	
7.18 Consultance Fee	0.00	
7.19 Honorarium Fee	0.00	
7.20 Audit Fee	0.00	
7.23 Miscellaneous Expenses	0.00	
7.24 Public Relation	0.00	

TOTAL RS. -----  
0.00  
=====

It will be appreciated if the individual monthly/annual revenue statement are checked in accordance with the company's accounting system rather than global reconciliation and determine the period of such error which will greatly facilitate to explain the cause and nature of error.

Keeping in view the sales volume of the period, statement should not be generalised based on error which in our opinion is minor and non-recurring in nature

#### FINDING 11

##### SUPPORTING DOCUMENTATION NOT CANCELED AT THE TIME OF PAYMENT

This practice is consistent with the practises followed by Nepalese business houses, Govt. corporations and other institutions. However, the payment vouchers prepared by the cashier is scrutinized and approved by the account officer and thus avoiding the chance of duplication of payment.

#### FINDING 12

##### TRAVEL EXPENSES NOT SUPPORTED BY REPORTS OF WORK DONE

Most travellers go to field to conduct sales routine activities as per the sales plan approved by the Director Marketing. The performance of these traveller is reflected in the monthly sales report needing no travel report.

Besides this, some staff visits field on supervision and they report to the respective Officer and to Managing Director.

#### FINDING 13

##### ADVANCES FOR NATIONAL TRAVELL NOT RETURNED

Accounting manual clearly requires the staff to refund any unspent advances with seven days from the date of return from the travel and it has been adhered to. However, sometimes frequent traveller category like driver/promoter and staff directly involved in sales are unable to present their expenses report due to overlapping of travel plan resulting in unspent office money left in their position. However, such amounts are not material.

The travel advance is given calculating their exact entitlement calculated by the supervisor and verified by the Finance Director and leaves not much scope for misutilization of office funds.

FINDING 14

PAYMENT MADE TO THIRD PERSON WITHOUT AN AUTHORITY LETTER

RSM programme operated in remote areas, encouraged as a policy to recruit husband and wife to work jointly as promotor at nominal honorarium of Rs. 200.00 per person per month.

The disbursing Officer visited the areas every two months and paid honorarium during bimonthly meeting of CBD Workers. There has been few instance wherein one of the spouse could not attend the meeting, in such situation, the disbursing officer was authorized to make payment due to couple to either of the spouse present in the meeting. Such payment was necessary to retain CBD Workers attracted to the job besides being uneducated to write authority letter and requiring several days of walking to receive payment.

No other payment has been made to third party without authorization on any other accounts besides mentioned above.

FINDING 15

INSUFFICIENT DOCUMENTATION FOR RECRUITMENT AND PAYMENT TO COMMUNITY BASED DISTRIBUTORS

RSM Program officer has been entrusted with the responsibility of recruiting workers required to run the program as outline in the company's Plan of Operation. Due to temporary status of the project, the program officer has also been made responsible for maintaining workers profile as well as all the program records. As such 2 regions are selected in each hilly and terai and keeping in view of the geographical condition, the workers working in hilly region were paid higher than those working in the terai.



Tel: 4-12000  
4-12673  
Gram: DHAAL  
Telex: NP 2205 AAPU  
C/o Annapurna Hotel

नेपाल लि. आर. एल. कम्पनी (प्रा.) लि.  
**Nepal Contraceptive Retail Sales (CRS) Company (P) Ltd.**

( A Non-Profit Social Marketing Company )  
Hattisar (Naxal), P. O. Box 842, Kathmandu, Nepal.

Ref No.

CRS/92/227

Date:

August 27, 1992

Mr. Graham Whittaker  
Audit Manager  
COOPERS & LYBRAND  
SINGAPORE

Fax No. 3362539  
3390048



Dear Mr. Graham,

As per the discussion held with Mr. K. B. Chitracar, we are pleased to send you our comments on finding no. 16 under internal control as follows.

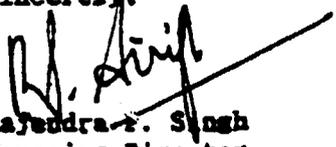
**NO DOCUMENTATION FOR INCENTIVES PAID TO DRIVER-PROMOTER**

Drivers Promoters incentives are given on quarterly basis paid upon achieving a fixed quarterly target. The basis for payment is format (form) as attached which provides full information about the Driver's sales activities and achievement, and which is certified by regional sales representatives. On the basis of this form, incentive payable sheet is prepared by the Transport Department and approved by the Marketing Director.

However, from 1992, the form has been slightly modified to include bill No's used by Sales Representatives during the sales supported by the particular driver/promoter and his vehicle service. The new form is also attached for your ready reference.

Thank you.

Sincerely,

  
Rajendra Singh  
Managing Director

C14

Copy to : Mr. K. B. Chitracar



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NON COMPLIANCE

FINDING 1

EXPENDITURE MADE OF REVENUE NOT AUTHORIZED

Letter issued from the office of the Director, USAID/Nepal, authorized CRS to use fund from internal revenue account to pay company employee's retroactive salary increase, to rent company's office and to conduct routine company's operation until March 1989 which was further extended upto April 30, 1989 vide a letter issued by Acting Director on May 16, 1989. (Appendix A/B)

Again letter issued by the Grant Office in August 2, 1989 authorized CRS to use internal revenue fund from July 16 thru October 15, 1989 to continue activities and finance the company's operation according to allowable costs as described in the Co-operative Agreement. This arrangement was also incorporated in Amendment No. 10 authorizing CRS to use internal revenue fund. (Appendix C)

The authorization to use internal revenue fund for the company's routine operation until findings under new amendment is assured was further extended vide letter of September 1, 1989 from the Project Officer. Furthermore, a letter issued by the Acting Director on September 22, 1989 has even advised the Grant Officer to consider for eventual reimbursement of the expenses incurred from the internal revenue fund subject to the criteria stated in the Grand Officer's letter of August 2, 1989. (Appendix D/E)

Above cited letter did not put any condition for submitting statement of expenditure and obtaining approval.

The expenditure incurred during the period covering July 16, 1989 thru December 31, 1989 was approved by the Board of Director's meeting held on August 1, 1990 in the presence of the USAID Representatives, Ms. Ursula Nadolny, Project Officer and Mr. Allen Eisenberg. Request for reimbursement during the meeting was also made however, it was not reimbursed as such the expenses was adjusted from internal revenue fund. A copy of board minute and the statement of expenditures is enclosed herewith for your ready reference. (Appendix F/G)



UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
MISSION TO NEPAL

Appendix B

KATHMANDU, NEPAL.

MAY 16 1989

Mr. Jagdish Upadhyaya  
General Manager  
Nepal CRS Co. (Pvt.) Ltd.  
Farrisar, Naxal  
Kathmandu

- Refs: a) S.Thapa letter to USAID dated May 9, 1989  
b) David Wilson letter to S.Thapa dated March 9, 1989  
c) Cooperative Agreement 367-0135-A-00-3067-00  
Amendment No. 7 dated March 3, 1989

Dear Mr. Upadhyaya:

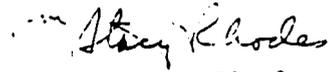
This is to acknowledge receipt of reference a) letter dated May 9, 1989, informing USAID of the CRS Board's approval of the institutional contract for the management of the CRS Company to be executed between USAID and the Management Association of Nepal (MAN). The contract was signed on May 11, 1989.

I would at this time like to point out that the terms of Cooperative Agreement Amendment No. 7 become effective on the date the management contract is signed. The terms of this amendment state that the period of agreement of the grant is (as of the date the management contract is signed) August 10, 1980 - July 15, 1989. As such, the grant agreement expiration date has now been extended to July 15, 1989. Our Office of Health and Family Planning will follow up with you as soon as possible with the next amendment, to include a revised program description and financial plan. The financial plan will cover the period from May 1, 1989 to July 15, 1989.

On a related matter, we note that David Wilson's letter to S.Thapa dated March 9, 1989 authorized the use of funds in the Special Bank Account for three specific purposes. One of these purposes, i.e. to conduct routine company operations until March 31, 1989, has now been reconsidered for extension to April 30, 1989, in light of the time elapsed since this authorization was given.

Pursuant to Article VI, E of Cooperative Agreement 367-0135-A-00-3067 between A.I.D. and the Nepal CRS Company, withdrawals from the Special Bank Account may be made only by check and with the written authorization of the Director of USAID or his designee. The use of funds in the Special Bank Account is hereby authorized to finance routine operations until April 30, 1989. No other expenditures are authorized.

Sincerely,



William Stacy Rhodes  
Acting Director

cc: Mr. Subarna J. Thapa, Deputy General Manager, CRS

UNITED STATES OF AMERICA  
 AGENCY FOR INTERNATIONAL DEVELOPMENT  
 MISSION TO NEPAL



KATHMANDU, NEPAL.

AUG 2 1989

Mr. Jagdish Upadhyay, General Manager  
 Nepal CRS Company (P) Ltd.  
 Hattisar, Naxal  
 Kathmandu

Subject: Cooperative Agreement No. 367-0135-A-00-3067-00

Dear Mr. Upadhyay,

Pursuant to the terms and conditions of Standard Provision Clause "Title and Use of Property (Grantee Title)" of Cooperative Agreement No. 367-0135-A-00-3067-00 between United States Agency for International Development (hereinafter known as "USAID" or "Grantee") and CRS, USAID hereby approves the use of revenue from the CRS internal revenue fund to continue activities and finance company operations according to allowable costs as described in the Cooperative Agreement Program Description. Reimbursement of allowable expenditures by USAID will be dependent upon availability of funds and continued progress towards CRS privatization.

As you well know, long term USAID financial commitment to CRS is conditioned on CRS privatization. Without privatization a new Cooperative Agreement at the end of the current bilateral agreement is unlikely. Likewise, any increase in funding for the remaining period under the current bilateral agreement will be directly linked to progress towards privatization.

In Amendment No. 10 USAID is extending the subject Cooperative Agreement to October 15, 1989, without additional funding. During the next few months USAID expects the process of privatization to include the following:

- (1) reduction of governmental representation on the CRS board,
- (2) reduction of government shares in CRS,
- (3) decrease in the size of the CRS board, and
- (4) increase in private enterprise representation on the CRS board.

Furthermore, USAID expects that CRS will take concrete steps toward appropriate changes in management strategy, system and structure in accordance with recommendations found in M.A.N.'s "Evaluation of CRS's Existing Management System: The Strategic Management Aspects", July 1989.

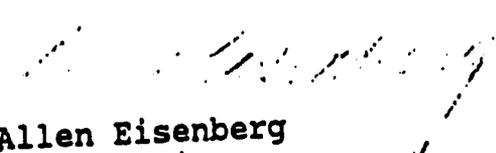
Assuming availability of funds and satisfactory progress towards privatization, the amount of funding under a future amendment will be based on several factors. Allowable costs, as described in the Cooperative Agreement Program Description, as amended, will be reimbursed for the period from July 16, 1989 through the date the amendment becomes effective. Reimbursement will be limited to a ceiling of \$200,000 (at an exchange rate of NRs.27.70 to 1 US dollar) for the 6 month period ending January 15, 1990. This ceiling is in accordance with revised budget that accompanied Ursula Nadolny's letter of July 24, 1989, and incorporates the 25% reduction of the salary and provident fund line items as per Amendment 9. Some adjustment between line items will be allowed and USAID will expect a reduction in the Board meeting costs as progress towards privatization occurs. Such a reduction will allow for the inclusion of computer printer and xerox machine procurement.

Additional funding will be approved according to accomplishments and actions as reported in trimester reports and as linked to Operating Plan elements. (These reporting requirements, deleted for the interim Cooperative Agreement Amendment No. 9, have been re-established in Amendment No. 10.) The trimester reports should include discussions on, for example, justifications for any new staff hired or to be hired; rural social marketing (RSM) baseline survey actions, progress and results; plans and justifications for, and activities and progress of regional offices; training and other educational activities taken; etc. Again, discussion of activities undertaken should be linked to Operating Plan elements.

In future agreements USAID will continue to look for further ties between sales revenues and employee remuneration and additional staff hiring. Although negotiable, an example might include a percentage of the salary payments to the sales representatives and incentive/bonus payments to non-salaried workers paid for from the internal revenue account.

In summary USAID is prepared to make a long term commitment to CRS, contingent on the occurrence of privatization. The first manifestation of such a commitment would be a Cooperative Agreement Amendment for increased support of activities through the end of our bilateral agreement. If you have any questions concerning USAID expectations or if I can be of any assistance in clarifying the above points, please do not hesitate to contact me.

Sincerely,

  
Allen Eisenberg  
Grant Officer,  
USAID/Nepal



UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
MISSION TO NEPAL

Appendix D

KATHMANDU, NEPAL

September 1, 1989

Jagdish Upadhyay  
General Manager  
CRS Company  
Kathmandu, Nepal

Dear Jagdish:

I have received your letter of August 28, 1989, requesting that the USAID-CRS Cooperative Agreement be concluded at the earliest date possible.

As you outlined in your letter, CRS has successfully undertaken many tasks that have, essentially, revived and improved company operations and paved the way for further improvements and efficiencies. Among the latter is the development of a privatization plan, which we all hope will become a reality at the earliest possible date. You and your staff have also worked closely with USAID on the terms and budget of the next Cooperative Agreement Amendment, and I believe we have reached agreement on activities and inputs for the next several months (July 16, 1989-January 15, 1990). In short, all is ready for final action on the next Cooperative Agreement Amendment.

In the interim, USAID has issued Amendment No. 10 of the Cooperative Agreement, which extends the agreement to October 15, 1989 without additional funding; and has approved CRS use of revenue from the CRS internal revenue fund to continue activities and finance company operations according to allowable costs as described in the program description (see Eisenberg's letter of August 2, 1989). The purpose of Amendment No. 10 and the approval of the use of internal revenue funds is to ensure that funds required for smooth and continued CRS operations are available, until funding under a future amendment is assured. Per Eisenberg's letter, assuming funds are available, allowable costs as described in the Cooperative Agreement Program description, as amended, will be reimbursed for the period from July 15, 1989 through the date the amendment becomes effective. Therefore, you should be able to go on with all your regular and planned activities during this interim time. As you know, however, the increase in funding under a future amendment, and reimbursement for the period from July 16, 1989, is directly linked to progress toward privatization.

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We seem to have something of a quandary, whereby USAID's position on additional funding has been clearly stated, but nevertheless CRS seems hesitant to continue normal operations until the next amendment is concluded. I hope there has been no misunderstanding. I urge you to share with your Board members USAID's optimism that satisfactory progress toward privatization can be achieved, and stress the fact that USAID encourages, indeed expects, CRS to continue normal operations according to existing agreed upon activities and inputs for the next several months.

I have also noted the points you and the terms as outlined in Eisenberg's letter. I regret that I cannot be more specific on when the next amendment might be concluded. If you or any of the Board members would like to discuss this further, please do not hesitate to contact me.

Sincerely,  
  
John Madolay  
Director, CRS  
Washington, D.C.

**Best Available Document**

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UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
MISSION TO NEPAL

SEP 22 1989

KATHMANDU, NEPAL

Dr. Shyam P. Bhattarai  
Chairman, Board of Directors  
Nepal CRS Company  
Hattisar, Naxal  
Kathmandu

Dear Dr. Bhattarai:

I have been asked to respond to your letter of August 29, 1989, to Dr. Calder of our HFP Office, concerning the proposed schedule for the CRS Company privatization plan. The issues involved at this critical juncture are extremely important to all concerned and merit our close attention.

In general, we are pleased to note our agreement on the need to (i) increase the number of shareholders in CRS, and (ii) decrease the size of the present CRS Board of Directors. However, we also note that it is not clear that two other specifics mentioned in Mr. Eisenberg's letter of August 2, 1989, have been embraced by the present Board as requirements for the near future, i.e., decreased Government of Nepal and increased private sector representation on the CRS Board. Please let us know of your concurrence with these principles.

As discussed with you and with the CRS Company Board many times over the past several months, USAID's position is absolutely firm on expected progress toward privatization before continued USAID assistance to CRS Company can be considered. While we ~~agree that the Desain and Tihar festival seasons do indeed~~ absorb much time during the month of October, we also note that the requirement for implementation of a privatization plan is not new and, therefore, should not at this late date be held up by such regular holiday events. We would like to hear from you regarding the efforts toward real privatization that have occurred to date.

While we do not feel that an extension of the length described in your proposed schedule is fully justified, USAID will reluctantly allow for lost work time during the holiday season and extend our deadline to December 31, 1989. Given the long history of the CRS Company privatization plan and our long-stated requirements for continued support to CRS Company, this extension is lengthy and certainly could not be further extended. The fact that the CRS Company Board has found it so

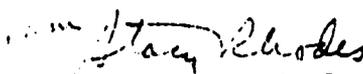
difficult to grapple with the obvious need for restructuring is a testament to the need to carry out such restructuring in the immediate future.

Regarding your specific request that the current Cooperative Agreement be extended and additional USAID funds be released for the program, USAID's position continues to be that no new funds may be programmed unless and until sufficient progress toward privatization is achieved. This has been our consistent view, and USAID must enforce by October 15, 1989 cut off for eventual possible reimbursement of funds. Therefore, we will advise our Grant Officer (Mr. Eisenberg) that only expenses incurred through October 15 may eventually be reimbursed, subject to the criteria stated in his most recent letter. Expenses incurred for the period from October 16 until the privatization issue is resolved will not be considered for reimbursement. This, of course, makes the need to act quickly on restructuring even more urgent for the sake of preserving the Company's resource base.

We hope that the seriousness of the situation is clear to all concerned and that we can all work productively toward the early resolution of the outstanding issues. We continue to believe that a Company operating under the principles of private management has enormous potential for assisting family planning and social progress in Nepal, but the Company as now constituted, managed and guided by the Board is no longer judged a high investment priority for USAID funds. Therefore, if satisfactory progress on privatization is not made by the end of this calendar year, USAID will move to terminate support for CRS, as presently constituted.

If you have any questions or comments, please do not hesitate to contact us.

Sincerely,

  
William Stacy Rhodes  
Acting Director

**Best Available Document**

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UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
MISSION TO NEPAL

KATHMANDU, NEPAL.

AUG. 27 1986

Mr. Hem Hamal  
General Manager  
Nepal CRS Company (P) Ltd.  
Thamel  
Kathmandu

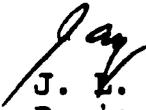


Dear Hem:

This is to approve CRS's execution of advertising subcontracts not exceeding Rs. 50,000.00 each without prior AID concurrence.

This approval was requested in your letter of August 15, 1986.

Sincerely,

  
J. L. Anderson  
Project Officer  
Office of Health and  
Family Planning

## FINDING 2

### ADVERTISING CONTRACTS NOT APPROVED BY USAID/N

Regular advertising and promotional activities were drawn up in the operating plan and accordingly sub-contract was awarded to full service advertising company under approval from USAID.

Enclosed letter from CRS to USAID and subsequent approval from USAID authorised. CRS to directly execute advertising activities for assignment of work upto Rs. 50,000.00 as such no approvals were sought from USAID in such cases. (letters attached for ready reference).

## FINDING 3

### PAYMENTS TO BOARD MEMBERS NOT IN ACCORDANCE WITH ARTICLES OF ASSOCIATION

Comment is noted. However, payment was made on decision of the Board of Directors and the total sum reported included reimbursement of transportation cost as well.

## FINDING 4

### INCOME TAX PAID INSPITE OF TAX EXEMPTION STATUS

Upon realization of the fact the company has already presuded matter with the Bankers and no deduction of taxes at source has been made since 1991 and CRS has already realized Rs. 5,208.34 on this account. The balance Rs. 16,692.00 already transfered to tax department is being followed up for recovery.

## FINDING 5

### COMMODITIES NOT INSURED

As reflected in the report the company has already explored every possible means to get the commodities insured against risk of loss. But the company's request for insuring commodities was turned down by the underwriter on ground of high risk.

Necessary action will be initiated again with the underwriter for the insurance coverage of commodities.

15 August 1986

Mr. Jay Anderson  
Project Officer  
HFP Office  
USAID MISSION TO NEPAL  
Ravi Bhawan  
Kathmandu.

Dear Jay,

The Nepal CRS Company at quite a few number of times confronts situations where execution of some unforeseen advertizing tasks not covered by the advertising subcontract becomes mandatory, and it is therefore in this light that I wish to seek your assistance in procuring USAID approval to allow the Nepal CRS Company to directly execute such mandatory advertizing tasks not covered by the ad. subcontract without exceeding budgetary limitation of Rs. 50,000/--.

As you must be aware, this subject was discussed at our last meeting yesterday, 14 August 1986, at your office, and I look forward to an early USAID approval of the above.

In case you may have any questions, I would be glad to answer them.

Thank you for your valuable support to CRS.

Sincerely,



Hem Hamal  
General Manager

## FINDING 6

### NON-ADHERENCE TO SPECIFIC REPORTING REQUIREMENTS

All the activities of the CRS including RSM programme is reflected in the quarterly report presented to USAID by the company. Besides these periodic reports and specific evaluation of the RSM programme has been conducted by the consultant and presented to the USAID.

## FINDING 7

### RECRUITMENT OF PERSONNEL NOT IN ACCORDANCE WITH BYE LAWS

At the initial period of CRS, all the staffs were on PSA, and were transferrd to Nepal CRS Company from the Westinghouse-CRS program. However, all of the regular staffs were appointed after thorough written and oral tests. CRS itself being a new concept with peculiar objective of SMP could not get the trained and ready made manpower to work for it and therefore had to hire on PSA to provide on the job training. Hence while selecting a regular confirmed staff, it is only natural that those already working with CRS topped and won the job. Since all the employees at one time or other had gone through a very intensive written and oral tests, CRS, has fairly provided an equal opportunity to all by the public advertising.

Like any other program, CRS is compelled to have its project staff on PSA because of temporary status of the project like RSM, repackaging operations and likes. Due to its limited man powers which can not be spared for any other job that originally assigned, the urgency of appointing staff on PSA also frequently arised whenever there is resignation or long term leave of any of staff.

However despite all the above facts, CRS has the records of appointing the qualified staff only after the thorough oral and written test, even PSA.

## FINDING 8

### NON-ADHERENC TO RECORDING AND MARKETING OF PROPERTY REQUIREMENTS

Since the inception of the company, CRS has been maintaining "Property Register" and all the properties that have been procured locally as well as received as grant in aid are well recorded in the register maintained by the Store Incharge and some of the goods received under grant in aid had the markings

Following the observation of the auditor, matter is being pursued with USAID/N for obtaining marking labels.

FINDING 9

CLAIMS IN EXCESS OF BUDGET

Following the condition set in the Article V. Financial Plan of the Co-operative Agreement, approvals from HFP office for every expenses exceeding the budget limit have always been practiced.

The over expenditure of Rs. 639,513 under budget line item sales was approved by USAID vide its letter dated January 23, 1989. (Copy enclosed).

The co-operative agreement amendment no. 9 authorized CRS to reallocate budget to various line items in a manner that the total budgetary provision is not exceeded. In view of the deletion of the clause from the co-operative agreement restricting to 5% limit of reallocation of funds between the various budget lines, no separate approval of USAID was requested for over expenditure of Rs. 102,294 under administration as this did not cause to exceed total budgetary provision.

Enclosed please find letters dated July 24, 1989 and September 6, 1989 letters issued by USAID supporting our statement given above.

FINDING 10

OVERHEAD RECOVERY RATE NOT APPROVED

CRS against its background of being a social marketing company took up Cr.S business as socially motivated project periodically involving no cost other than time of CRS staff not affecting the contraceptive business. This business has contributed significant amount to the revenue of the company.

In this respect, series of discussion had been held on overhead recovery of ORS Sales in presence of the representatives from both UNICEF and USAID/Nepal. As discussed during the meeting, CRS in consultation with the company's auditor, designed and implemented cost accounting system for overhead cost recovery of ORS Sales. Furthermore, Ms. Maggie Huff, SOMARC consultant, had also reviewed the company's existing system during her visit to CRS in 1985 and had expressed her satisfaction to the system in her report to SOMARC.

However new proposal is being developed on aspect of cost recovery and will be taken up to USAID for future business.



KATHMANDU, NEPAL

JAN 23 1989

Mr. J. B. Kimal  
General Manager  
Nepal Tea Company (P) Ltd.  
Kathmandu, Nepal  
Nepal

Dear Sir,

This is in response to your letter of January 13, 1989 regarding overexpenditures under item B, "Sales" of the Cooperative Agreement. We have been aware for some time that the budgeted levels in this category were being exceeded, apparently as a result of an inadvertent under-budgeting for these expenses when the agreement was last amended. However, since the total amount provided in the agreement has been sufficient to cover all costs, we have waited to remedy this problem until the agreement was normally scheduled for amendment again.

As you know, amendment 6 to the agreement is now in the process of finalization here at USAID. You have received a draft copy. I recommend that you and your staff review the budget in that amendment once more to insure that the funding provided will be sufficient, in all line items, to take CRS through July 15, 1989. If you have any problems in this regard, please let me know as soon as possible.

In the meantime, ~~this is to~~ authorize CRS to spend beyond the ~~5%~~ excess currently authorized, in the "Sales" category, provided that the total amount of funds provided in the agreement is not exceeded.

Sincerely,

J.L. Anderson  
Project Officer  
Office of Health and  
Family Planning

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FINDING 11

APPROVAL NOT TAKEN FOR SALES TO NOG'S

CRS has supplied contraceptives to the following NGOs :

1. Save the Children USA.
2. Nepal Red Cross Society.
3. Mother's Club funded by IPPF/USAID.
4. Ex-Servicemen Organization

Enclosed letter from USAID provided approval for supplying commodities. And to our knowledge they adhere to US population policy.

The Indian Embassy published notice for procurement of contraceptives in the local newspaper and the company, as a regular sales activity participated in the tender and supplied contraceptives to them. The purpose of this procurement was for distribution to the Gorkha ex-servicemen through pension distribution camps in the remote area.

Enclosed is a copy of approval from USAID authorizing CRS for such transaction.

FINDING 12

GENERAL MANAGER'S NATIONAL TRAVEL NOT APPROVED IN ACCORDANCE WITH PERSONNEL REGULATIONS

Since most of the CRS activities take place in the field, the frequency of Chief Executive Officer's field visits was his regular responsibility. Since it was believed neither practical nor necessary to obtain approval from the chairman for such regular trips. However, verbal approvals were always sought by the telephone for such trips

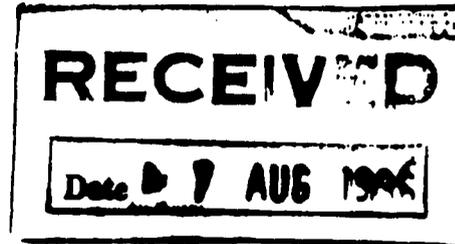


UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
MISSION TO NEPAL

KATHMANDU, NEPAL.

August 6, 1986

Mr. Hem Hamal  
General Manager  
Nepal CRS Company (P) Ltd.  
Thamel  
Kathmandu



Dear Hem:

This is to approve the sale of about 166,666 consumer packs of Dhaal (about 1,000,000 units) to the Indian Embassy in Kathmandu as requested in your letter of August 5, 1986. We understand from our previous conversations with you that the Indian Embassy will distribute these condoms free of charge to Nepalese who have retired from the Indian army and who are living in Nepal.

Sincerely,

  
J.L. Anderson  
Project Officer



UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
MISSION TO NEPAL

KATHMANDU, NEPAL  
November 17, 1989

Mr. Jagdish Upadhyay -  
General Manager  
CRS Company  
Natisnar, Kathmandu

Dear Jagdish,

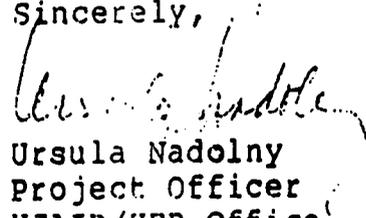
I have received a copy of the terms of reference agreed to between CRS and two NGOs (M/s Nepal Red Cross Society and M/s Nepal Ex-Servicemen's Organization) concerning the distribution of temporary family planning contraceptives and other primary health care products supplied by CRS. We congratulate you on your progress in achieving these agreements and expanding the availability and sale of contraceptives and ORS through these networks.

Per the terms of our Cooperative Agreement with CRS, please note that no commodities are to be provided for this purpose until appropriate certifications are obtained from local NGOs that such entities are in compliance with AID population policy. The latter is outlined in the attachment to the Cooperative Agreement titled "Required as Applicable Standard Provisions for Non-U.S., Non-Governmental Grantees", "14. Voluntary Population Planning."

The terms require that the organizations with which CRS enters into an agreement certify to CRS that they are in compliance with the policy. Therefore, we urge you to obtain such certification from the two NGOs (and any others with which you may reach agreement in the future) at the very earliest.

Thank you.

Sincerely,

  
Ursula Nadolny  
Project Officer  
USAID/HFP Office

FINDING 13

INCORRECT CLASSIFICATION OF EXPENSES

For the first 5 years of the existence of the company, CRS, was under the management of Westinghouse Health System and during that period, all accounts were maintained by the contractor. Upon termination of the project and emergence of CRS as a private company, the classification of expenses were made in line with the budgetary provision and spent in accordance with Company's approved rules and regulations against which USAID had made disbursement. All financial reports as well as financial statements audited by the independent auditors licenced by Auditor General of Nepal were sent to donor. Thus, in our opinion under the changed context reclassification of expenditure already incurred several years would not be reasonable.

FINDING 14

OTHER QUESTIONED COST

As recommended by the auditors, the matter is being persuaded with USAID for resolving the cited questioned costs under Appendix A.I, item 7 which in our opinion incurred as normal business expenses. However, in respect of the items listed below, we would like to draw your kind attention to the following facts :

1. a. It was management decision to award these service to appoint full service Ad. Agency and paid accordingly.
- b. Since most of the system were inherited from Westinghouse the company during initial period followed the payment policy practiced during the Project period. However, upon establishment of existing accounting system, the advertising agencies are now required to submit the original bill of the media along with their invoice.
2. a. ORS advertising cost : Mistakenly charged.
- b. Royal Family : Following the tradition of greeting Head of the state as well as eminent personality, it was felt necessary by the management and carried out activities accordingly.
- c. Greeting Ads. : It is a customary practice of Nepalese commercial organization to publish such commemorative advertisement on such occasions and accordingly it was carried out.

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- d. : These expenses were related to advertising as such, it was charged to this account.
- e. : It was also a customary practise of greeting the client during the festive occassion, hence CRS has incurred the expenses under this heading.

We feel that above activities did not only marked the occasion but also has helped to further enhance the corporate image of the company and these are seen as normal expenses.

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