

**Regional Inspector General for Audit
Singapore**

**AUDIT OF
THE HOST COUNTRY CONTRACT BETWEEN
NRECA INTERNATIONAL LTD. AND
THE GOVERNMENT OF BANGLADESH**

**Audit Report No. 5-388-93-13-N
August 12, 1993**



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BEFORE ANY INFORMATION IS RELEASED TO
THE PUBLIC.**





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

August 12, 1993

TO: Frank J. Young, Acting Mission Director
USAID/Bangladesh

FROM: Richard C. Thabet, RIG/A/Singapore *R. Thabet*

SUBJECT: Audit of the Host Country Contract Between
NRECA International Ltd. and the Government of Bangladesh
Report No. 5-388-93-13-N

Enclosed are five copies of the subject audit report (prepared by the accounting firm of Price Waterhouse, Calcutta) for your action. This financial audit of the USAID/Bangladesh-funded host country contract between NRECA International Ltd. and the Government of Bangladesh's Rural Electrification Board covered the period from April 1, 1988 through November 30, 1991. During this period, NRECA reported it had received \$1,645,717 and spent \$1,838,170 in Bangladesh. The background on this contract is presented on pages 1 and 2 of the report.

The audit objectives were to:

- Determine whether NRECA's Fund Accountability Statement presents fairly the receipts and expenses under the contract;
- Report on NRECA's system of internal controls; and
- Report on NRECA's compliance with applicable laws; regulations, and terms of the contract.

The audit report concluded that NRECA's:

- Fund Accountability Statement presents fairly the receipts and expenditures under the contract except for \$89,400 in questioned costs;

- Internal controls had two material internal control weaknesses in the areas of bookkeeping and payment control; and
- Operations complied in all material respects with applicable laws, regulations, and terms of the contracts except for instances which gave rise to the above questioned costs.

This audit report contains five findings and recommendations. In their response, NRECA officials generally agreed with these findings and recommendations. Their comments are summarized after each finding in the report and presented in their entirety as Appendix 1.

USAID/Bangladesh needs to ensure that necessary action is taken to correct the problems noted in this audit. In addition, the following recommendations are being made and will be included in the Inspector General's recommendation follow-up system:

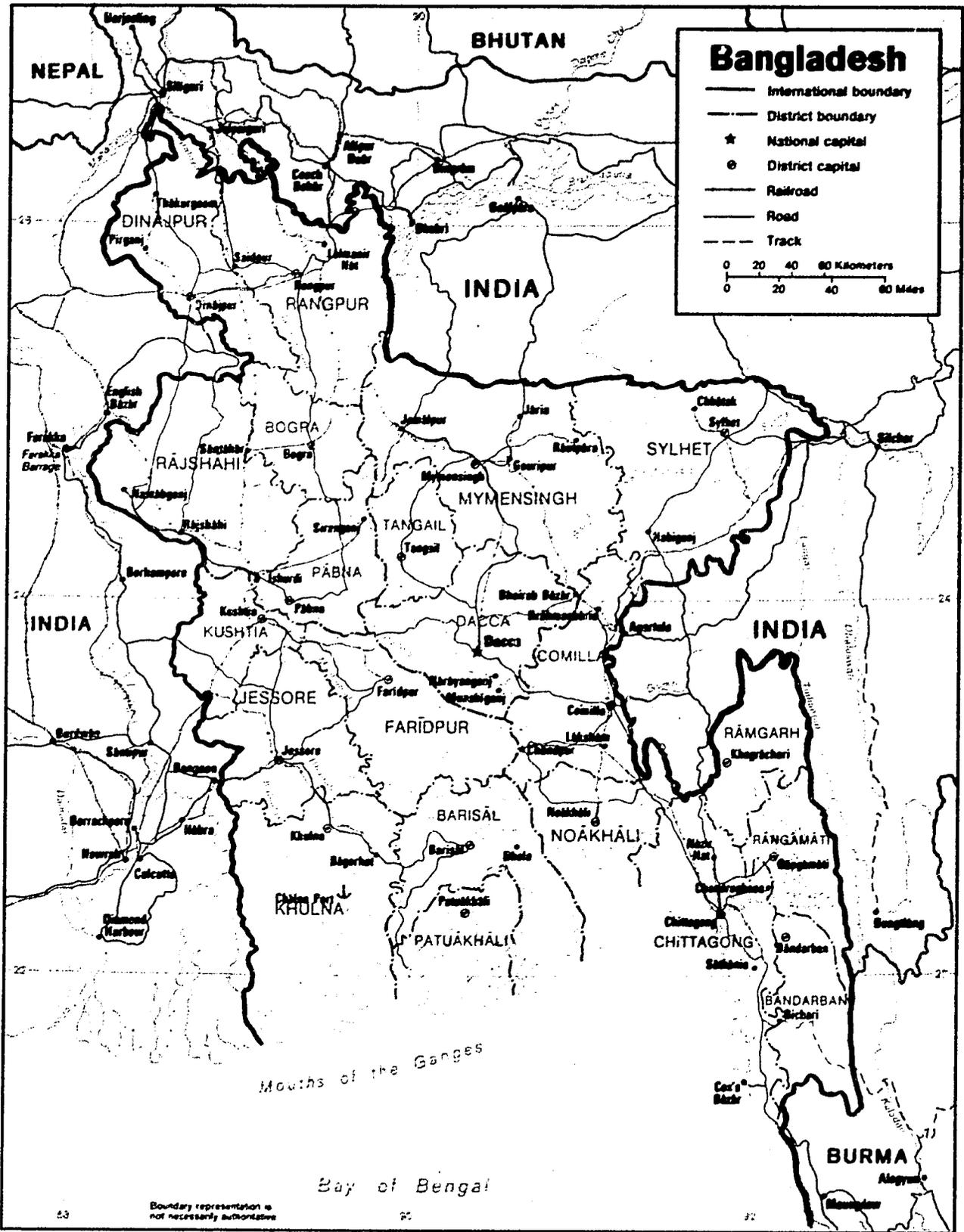
Recommendation No. 1: We recommend that USAID/Bangladesh resolve the \$89,400 (\$88,754 ineligible and \$646 unsupported) in questioned costs with NRECA International Ltd. and recover any amounts determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Bangladesh verify that NRECA International Ltd. establishes and implements a system to: (a) cancel bills at the time of payment, (b) monitor cumulative expenses under each budget category, and (c) link and identify amounts claimed in each invoice submitted to USAID/Bangladesh to individual expense vouchers.

We appreciate the courtesies and cooperation USAID/Bangladesh and NRECA 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.

Attachment: a/s



NRECA INTERNATIONAL LIMITED, DHAKA

**RURAL ELECTRIFICATION PROJECT III
UNDER USAID/BANGLADESH
PROJECT NO. 388-0070**

AUDITORS' REPORT

Price Waterhouse



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Price Waterhouse



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

Dear Mr. Durnil,

This report presents the results of our financial audit of Government of Bangladesh's Rural Electrification Board's (REB) contract with the NRECA International Ltd. (NRECA) under Rural Electrification Project III (USAID/Bangladesh Project No.388-0070) for the period from 1st April, 1988 to 30th November, 1991, which covered costs incurred in Bangladesh only.

BACKGROUND

Over 84% of Bangladesh's population live in rural areas. Agriculture remains the backbone of the Bangladesh economy, accounting for close to 50% of its GDP. In 1976, less than 3% of the rural population had access to electricity which led the Government of Bangladesh (GOB) to embark on a program to extend the public supply of electricity. It is with this scheme in mind that in September 1986, USAID/Bangladesh (USAID/B) entered into an agreement with the Government of Bangladesh (GOB) to implement the Rural Electrification Project III (RE-III). Currently, the project carries obligations of US\$ 60 million, to be spent over an approximate period of 10 years. The Project Assistance Completion Date (PACD) is September 22, 1996 and, as of December 31, 1991, about US\$ 29 million has been expended.

The purpose of the RE-III is to develop the capability of the REB to effectively provide technical, managerial and engineering capability and leadership necessary to establish self-sustaining, financially viable, properly managed and maintained rural electric co-operatives providing reliable electric power at reasonable rates to rural residents. It will concentrate on the intensification of the distribution network previously funded by USAID through the construction of approximately 3,500 miles of 11 KV distribution lines and 10 MW sub-stations; provision of transformer spares and various electrical equipment and also technical assistance.

NRECA, an independent 'not-for-profit' consulting firm specializing in rural electrification having its principal office in Washington D.C., was selected by the Rural Electrification Board of the Government of Bangladesh as the technical assistance contractor under the RE-III on December 27, 1987. USAID/B agreed to fund this contract under a Letter of Commitment (No.388-007001) of March 1988. Its duties under the contract are primarily to :

- ❑ advise in the review and assist in the development of REB policies.
- ❑ advise and monitor the review and further development of the training program and skill development of the REB's staff.
- ❑ monitoring REB's compliance with approved REB policies, instructions and procedures.
- ❑ providing periodic reports and advise in liaison between the various parties involved in the project.

The total contract budget amount is US\$ 12.4 million and as of November 30, 1991, total expenditures incurred by NRECA under the contract amounted to US\$ 11,323,850.38 consisting of cost incurred in Bangladesh US\$ 1,838,170.26 and US incurred cost US\$ 9,485,680.12.

AUDIT OBJECTIVES AND SCOPE

A financial audit of the Fund Accountability Statement of NRECA under its contract with the Government of Bangladesh's Rural Electrification Board (USAID/Bangladesh Project No.388-0070) was performed in accordance with generally accepted U.S. Government Auditing Standards. The scope of the audit only covered costs incurred in Bangladesh (amounting to US\$ 1,838,170.26) and not the US incurred cost amounting to US\$ 9,485,680.12. The audit included appropriate tests to determine if funds were being properly accounted for and used as directed by the Agreement and other applicable program documents or the laws of Bangladesh.

The principal objectives of the audit were to:

1. Determine whether the Fund Accountability Statement for NRECA fairly presents the Company's cost incurred (excluding home office support costs) covering the period from 1st April, 1988 to 30th November, 1991 in conformity with the terms of the contract and Letter of Commitment with USAID/B and identify any costs which were not fully supported with adequate records or which were not allowable/ reasonable or allocable under the terms of the Agreement.
2. Report on whether NRECA's internal accounting controls were adequate for A.I.D. purposes.
3. Report on NRECA's compliance with the applicable laws, regulations and Agreement terms.

The scope of our work included the following general procedures :

1. Holding meetings with USAID/B, NRECA and USAID Regional Inspector General for Audit/Singapore(RIG/A) officials.



2. Reviewing the Co-operative Agreements and appropriate amendments, OMB Circulars, A.I.D. Hand Book regulations prior period audit report on NRECA's financial statements and financial and voucher verification review correspondence and minutes of meetings between USAID/B, NRECA as well as project progress reports maintained by both NRECA and USAID/B.
3. Obtaining an understanding of the accounting, administrative and internal control systems of NRECA using interviews and narrative descriptions.
4. Devising and performing appropriate tests on the transactions and balances recorded in the Fund Accountability Statement.

Our scope of examination also included designing audit steps and procedures to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have a direct or indirect material effect on the Fund Accountability Statement of NRECA.

RESULTS OF THE AUDIT

Fund Accountability Statement

The scope of our work was limited to the examination of the Fund Accountability Statement of NRECA as they relate to its operations in Bangladesh.

Our examination revealed that :

- (1) The Fund Accountability Statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.
- (2) As part of our examination, we identified questioned costs aggregating US\$ 89,400. (See Summary of Questioned Costs enclosed in Annexure 1 on page 31).

Except for the effects of such adjustments relating to paragraph (2) above, in our opinion, the Fund Accountability Statement, read with notes attached thereto, fairly presents the receipt and expenditure of funds provided to NRECA by USAID/B in support of its project No.388-0070 for the period 1st April, 1988 to 30th November, 1991 on the basis of accounting described in Note 2 to the Notes on Fund Accountability Statement.

Internal Accounting Controls

Our review and evaluation of the system of internal accounting controls of NRECA indicated certain reportable conditions (discussed in Findings 3 and 4).

We believe the above reportable conditions to be a material weakness.



We also noted certain minor weaknesses involving internal control structure and its operation that we have reported to the management of NRECA International Ltd., Dhaka in a separate letter dated 19th August, 1992.

Compliance with Agreement Terms

Based on the results of our audit for the item tested except for certain material non-compliance as discussed in Findings 1, 2 and Finding 3 of the report on Internal Controls and Finding 5 of the report on Compliance Section, NRECA complied in all material respects with the applicable laws and regulations, Agreement terms and binding policies and procedures. For the items not tested by us nothing came to our attention to indicate that NRECA was not in compliance with applicable laws and regulations and Agreement terms.

NRECA's MANAGEMENT COMMENTS ON OUR FINDINGS AND RECOMMENDATIONS.

NRECA officials were generally in agreement with our findings and recommendations. They have advised us of various measures which are being or have been taken to rectify the deficiencies and areas of non-compliance which were highlighted during our audit. As of 11th February, 1993 NRECA indicated that US\$ 8,359 has already been repaid to USAID/B. Their comments are summarised after the individual findings and recommendations in the report and are set out in full in Appendix-I to the report.

FOLLOW-UP ON PRIOR REVIEW

Our audit included a review of the status of action taken on the findings reported by M/s Barea Pear & Khan, Chartered Accountants in their financial and voucher verification review of the local costs of NRECA for the period April, 1988 to March, 1990. While action has been taken and many of their recommendations implemented, there were still certain areas where corrective action remained to be initiated like maintenance of ledger, petty cash book etc. Details of above are separately discussed in the Financial Review Follow-up Section on page 29.

6th April, 1993

Price Waterhouse
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS.



Price Waterhouse



**NRECA INTERNATIONAL LIMITED, DHAKA.
RURAL ELECTRIFICATION PROJECT III
(UNDER USAID/BANGLADESH PROJECT NO.388-0070)**

INDEPENDENT AUDITORS' REPORT ON THE FUND ACCOUNTABILITY STATEMENT

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

1. We have audited the Fund Accountability Statement of NRECA International Ltd. (NRECA) under the Rural Electrification Project III (USAID/Bangladesh Project No. 388-0070) as set out on pages 7 to 11 (which covered only costs incurred in Bangladesh) for the period from 1st April, 1988 to 30th November, 1991. The Fund Accountability Statement is the responsibility of the Management of NRECA. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.
2. We conducted our audit in accordance with generally accepted U.S. Government Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statement. 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 that our audit provides a reasonable basis for our opinion.
3. As described in Note 2c on Page 9 this Fund Accountability Statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.
4. As part of our examination, we identified questioned costs aggregating US\$ 89,400 the justification of which should be reviewed by USAID/B and REB for allowability or else these should be disallowed (See Summary of Questioned Costs enclosed in Annexure 1 on page 31).

5. In our opinion, except for the effects of such adjustments as might have been determined to be necessary relating to paragraph 4 of the report, the Fund Accountability Statement referred to above read with the notes attached thereto presents fairly in all material respects project receipts and disbursements for the forty four month period ended 30th November, 1991 in conformity with the basis of accounting described in Note 2 to the Notes on Fund Accountability Statement.
6. This report is intended for the information of USAID/B, REB and the management of NRECA. This restriction is not intended to limit the distribution of this report which is a matter of public record.

19th August, 1992.

Price Waterhouse
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS



NRECA INTERNATIONAL LIMITED, DHAKA.
RURAL ELECTRIFICATION PROJECT III
(UNDER USAID/BANGLADESH PROJECT NO.388-0070)

FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD 1ST APRIL 1988 TO 30TH NOVEMBER 1991.

	NOTES	AMOUNT	
		(TK)	(US\$)
FUNDS RECEIVED			
Reimbursements from USAID/B upto November 1991		54,113,740.96	1,645,716.90
Claims Receivable	3	7,096,083.00	192,453.36
TOTAL		61,209,823.96	1,838,170.26
 EXPENDITURE			
Budget category expenses for the period 1st April 1988 to 30th November 1991	4	61,209,823.96	1,838,170.26
TOTAL		61,209,823.96	1,838,170.26

19th August, 1992

Price Waterhouse
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

Charles Overman
Charles Overman
Chief of Party
NRECA INTERNATIONAL LTD.



**NRECA INTERNATIONAL LIMITED, DHAKA.
RURAL ELECTRIFICATION PROJECT III
(UNDER USAID/BANGLADESH PROJECT NO.388-0070)**

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - IDENTIFICATION AND ACTIVITY

The Government of Bangladesh (GOB) entered into an agreement with USAID/Bangladesh (USAID/B), in September 1986 to implement the Rural Electrification Project III (RE-III). The purpose of RE-III is to develop the capability of the Rural Electrification Board (REB) to effectively provide technical, managerial and engineering capability and leadership necessary to establish self sustaining, financially viable, properly managed and maintained rural electric co-operatives providing reliable electric power at reasonable rates to rural residents.

NRECA, an independent 'not-for-profit' consulting firm specializing in rural electrification having its principal office in Washington D.C., was selected by REB of GOB as the technical assistance contractor under the RE-III on December 27, 1987. USAID/B agreed to fund this contract under a Letter of Commitment (No.388-007001) of March 1988.

The primary duties of NRECA under this contract are to :

- Advise in the review and assist in the development of REB policies.
- Advise and monitor the review and further development of the training program and skill development of the REB's staff.
- Monitor REB's compliance with approved REB policies, instructions and procedures.
- Provide periodic reports and advise in liaison between the various parties involved in the Project.

NRECA is reimbursed by USAID/B direct costs incurred by it.

NOTE 2 - BASIS OF ACCOUNTING

- a. The Fund Accountability Statement has been prepared on the basis of available books and records of NRECA International Limited, Dhaka and includes contributions from USAID/B and expenses met therefrom in Bangladesh. The Fund Accountability Statement does not include amount received by NRECA / Washington from USAID/B amounting to US\$ 9,485,680.12 and expenses met therefrom.



- b. Expenditure incurred and booked and invoices for reimbursement raised on USAID/B are in Taka, the local currency (with equivalent US Dollar amounts mentioned on the invoices as per exchange rate ruling on the invoice date). The reimbursements received are for the US Dollars indicated in the invoice (unless deductions are made for various reasons). Exchange fluctuations between the invoice date and the subsequent realisation thereof (which are likely to be significant and are not readily quantifiable) have not been separately reflected in the books. The Fund Accountability Statement is expressed in Taka translated into US Dollars at exchange rates ruling on the dates of invoices.
- c. Expenditure incurred and funds received from USAID/B are accounted for on cash basis.

NOTE 3 - CLAIMS RECEIVABLE

This consists of the following :

- a. Claims for reimbursements since received upto 19th August, 1992 Tk.7,081,083 (US\$ 192,067.76) and,
- b. An Invoice of November, 1991 for Tk.15,000.00 (US\$ 385.60). This does not include Tk.127,139.00 (US\$ 3,651.32) deducted from the Invoice No. 152 of June, 1990 for various reasons.



**NRECA INTERNATIONAL LIMITED, DHAKA.
RURAL ELECTRIFICATION PROJECT III
(UNDER USAID/BANGLADESH PROJECT NO.388-0070)**

NOTES TO THE FUND ACCOUNTABILITY STATEMENT (CONTD.)

NOTE 4 - BREAK UP OF BUDGET CATEGORY EXPENSES

(a) The budget category expenses consists of the following :

	AMOUNT	
	(Tk.)	(US\$)
(i) Bangladesh Local Staff Salaries	9,230,737.00	270,594.65
(ii) International Travel & Per diem (Expatriate)	12,419,416.00	375,525.88
(iii) Transportation/Storage & Personal Effects	3,811,281.96	109,905.63
(iv) Local Domestic Travel	3,200,346.00	96,289.08
(v) Hotel - Dhaka	46,727.00	1,478.23
(vi) Housing - Dhaka	25,186,838.00	768,373.32
(vii) Vehicles, Equipment, Appliances Furnishings & Supplies	822,828.00	25,733.26
(viii) Office supplies expenses - Dhaka	1,974,146.00	59,069.62
(ix) Other direct costs	4,517,720.00	131,205.99
	<u>61,210,039.96</u>	<u>1,838,175.66</u>
<i>Less: Amount deducted by USAID/B from various invoices on account of exchange difference.</i>	216.00	5.40
	<u><u>61,209,823.96</u></u>	<u><u>1,838,170.26</u></u>



(b) Items (ii), (iii), (vi) and (ix) of (a) above does not include amounts disallowed Tk.2,183,603.04 (US\$ 56,349.94) arising out of USAID's review, and refunded to USAID/B subsequent to November, 1991 as follows :

	AMOUNT	
	(Tk.)	(US\$)
International Travel & Per diem (Expatriate)	293,024.00	7,537.50
Transportation/Storage & Personal Effects	305,653.04	7,858.28
Housing - Dhaka	1,556,655.00	40,223.63
Other direct costs	28,271.00	730.53
	<u>2,183,603.04</u>	<u>56,349.94</u>



**NRECA INTERNATIONAL LIMITED, DHAKA.
RURAL ELECTRIFICATION PROJECT III
(UNDER USAID/BANGLADESH PROJECT NO.388-0070)**

FINDING 1

GRATUITY PAID FOR PRIOR YEAR SERVICES SHOULD NOT BE CHARGED TO THIS PROJECT

CONDITION

Budget categorywise expenses include questioned costs amounting to Tk.752,395.00 (US\$ 20,335) paid in November 1991 as gratuity to employees, pertaining to their services for the period up to 30th November, 1987. These amounts are pre-contract expenses since this contract commenced on 1st December, 1987.

CRITERIA

Article II of the contract between REB and NRECA Ltd. permits NRECA, to charge to this contract any pre-contract costs that are otherwise allowable and were incurred by NRECA on or after 1st December, 1987 only.

CAUSE

The reason for the above referred expenditure being charged to Phase III is that the provisions of the contract were not kept in mind at the time of booking such expenditure.

EFFECT

The above resulted in questioned costs amounting to Tk.752,395.00 (US\$ 20,335). (Refer item 1 of Annexure 1 on Page 31).

RECOMMENDATION NO. 1

We recommend that NRECA resolve the above Tk.752,395.00 (US\$ 20,335) in questioned costs with the host country contracting agency (REB) and USAID/B, and repay the amount determined to be unallowable.

NRECA Management Comments

The Tk.752,395.00 (US\$ 20,335) payment was for gratuity and earned leave obligations when the local staff was terminated in entirety on 30th November, 1991, the expiration date of Phase III of A.I.D. Project No.388-0070. No such termination took place at the end of Phase II; therefore, there was no liability for payment at that time and NRECA is in Contract compliance on this finding.



FINDING 2

UNEXPIRED LEASE RENTALS SHOULD NOT BE CHARGED TO THIS PROJECT CONDITION

Set out in Annexure 2 are payments towards lease rentals beyond 30th November, 1991, being the scheduled end of the contract period, aggregating Tk.1,777,750 (US\$ 52,573) made to various landlords of houses taken on lease by NRECA.

CRITERIA

As per Article II the completion date under the Contract was 31st July, 1991, later extended to 30th November, 1991.

In other words only costs relating to the period up to 30th November, 1991 (i.e. contract expiry date) can be charged to the contract.

CAUSE

The reason for the above referred expenditure being charged to Phase III is that the provisions of the contract were not kept in mind at the time of booking such expenditure.

EFFECT

The above resulted in questioned costs amounting to Tk.1,777,750.00 (US\$ 52,573). (Refer item 2 on Annexure 1 on page 31).

RECOMMENDATION NO. 2

We recommend that NRECA resolve the above Tk.1,777,750.00 (US\$ 52,573) in questioned costs with the host country contracting agency (REB) and USAID/B, and repay the amount determined to be unallowable.

NRECA Management Comments

The Tk.1,777,750.00 (US\$ 52,573) in advance lease payments to various landlords represent costs that are assignable to Phase IV operations; therefore, NRECA has made accounting adjustments to reduce Phase III expenditures and increase Phase IV expenditures by this amount and is now in Contract compliance on this finding.



Price Waterhouse



**NRECA INTERNATIONAL LIMITED, DHAKA.
RURAL ELECTRIFICATION PROJECT-III
(UNDER USAID/BANGLADESH PROJECT NO.388-0070)**

INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROLS

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

We have audited the Fund Accountability Statement of NRECA International Ltd. (NRECA) under the Rural Electrification Project III (USAID/Bangladesh Project No.388-0070) as set out on pages 7 to 11 (which covered only costs incurred in Bangladesh) for the period from 1st April, 1988 to 30th November, 1991 and have issued our report thereon dated 19th August, 1992.

We conducted our audit in accordance with generally accepted U.S. Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

In planning and performing our audit of the NRECA we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The management of NRECA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments 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 safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the Fund Accountability Statement 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.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories :-

- a) General Controls.
- b) Bank and Cash (receipts and disbursements)
- c) Payroll.
- d) Procurement.

For all the control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

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 judgment, could adversely affect the organisation's ability to record, process, summarize and report financial data consistent with the assertions of management in the Fund Accountability Statement. The reportable conditions which include internal control weaknesses - ledger not maintained, deficiencies in system of payment etc. are described in Findings 3 and 4.

A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a low level the risk that errors or irregularities in amounts that would be material in relation to the Fund Accountability Statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our examination 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.

We believe the reportable conditions described above is a material weakness.

We noted certain other minor matters involving the internal control structure and its operation that we have reported to the management of NRECA International Ltd., Dhaka in a separate letter dated 19th August, 1992.

This report is intended for the information of USAID/B, REB and the management of NRECA. This restriction is not intended to limit the distribution of this report which is a matter of public record.

19th August, 1992.

Price Waterhouse
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS



**NRECA INTERNATIONAL LIMITED, DHAKA
RURAL ELECTRIFICATION PROJECT III
(UNDER USAID/BANGLADESH PROJECT NO.388-0071)**

FINDING 3

DEFICIENCIES IN NRECA'S ACCOUNTING

CONDITION

In course of our audit we have noted the following deficiencies in accounting system -

- a. NRECA maintains only a Cash/Bank Book with extended columns for expense heads with monthly balancing system.
- b. No General Ledger is maintained which can help in determining cumulative expenses under budget line items.
- c. Invoices raised on USAID for reimbursement claims are not adequately cross referenced with the books and records.
- d. A "General Ledger Summary of Transactions" (GLSOT) or cash Trial Balance has been maintained from January, 1990 onwards. However, the GLSOT suffers from the following weaknesses :
 - (i) Under the GLSOT cumulative expenses under budget line items can not be determined.
 - (ii) The GLSOT does not include the balance of Taka in Grindlays Bank Account No.1033202526003 [i.e. Utility Account]. Since NRECA has chosen to continue this bank account, there is no reason why this should not be included in the GLSOT like the other bank accounts.
 - (iii) The GLSOT also includes expenses not related to Phase III of the contract. Refer Findings 1 and 2 in this regard.
 - (iv) Receipt of reimbursements from USAID have been in dollars and transfers from Dollar Account (No. 103320252605) to convertible bank accounts have taken place at official exchange rates ruling on the transaction dates. However, for the purposes of recording in GLSOT translation rates (different from the official exchange rates) based on a computer program developed by NRECA, have been adopted.

Based on translation rates adopted as above, month-end Taka balances shown in the GLSOT have been greatly distorted.



As will appear from the illustration given below, rates of Taka per dollar determined by dividing month end Taka balances by corresponding dollar balances (both as per GLSOT) widely differ from official exchange rates on those dates. In fact in October, 1991 the dollar balance of US\$ 8668.42 shows a corresponding negative Taka balance of Tk.211,451.04.

Month	Closing Balance in US \$ shown in GLSOT	Closing Balance in Taka shown in GLSOT	Determined Exchange Rate	Official Exchange Rate.
January 90	37368.81	1203220.66	32.20	32.1987
June 90	39658.65	1250833.94	31.54	34.8187
September 90	17667.67	423202.26	23.95	35.5987
May 91	42571.70	1156785.24	27.17	35.6987
August 91	64172.76	1875439.99	29.22	36.7987
October 91	8668.42	(211451.04)	-	-
November 91	32905.98	550635.90	16.73	37.9987

However, this is just a translation problem leading to erroneous recording in the GLSOT.

CRITERIA

As per clause 9A of GENERAL PROVISIONS FOR HOST COUNTRY CONTRACT (Cost Reimbursable Contract for Professional and Technical Services Funded by USAID) the contractor shall maintain books, records, documents and other evidence and shall apply consistent accounting procedures and practices sufficient to reflect properly all transactions under or in connection with the contract.

CAUSE

The present method of accounting was developed by Mr. R. D. Heard, Financial Expert, who worked part-time for NRECA till 1990, and NRECA management has not considered it necessary to change the system even after hiring of an Accountant since January, 1992.

EFFECT

This has resulted in an incomplete and inaccurate maintenance of books of account and accordingly one has to depend heavily on source documents for compilation of any accounting data.



RECOMMENDATION NO.3

We recommend to NRECA that :

- a. A General Control ledger be maintained for the Project, which would help in determining cumulative expenses under each head and the balance of Account No.1033202526003 i.e. Utility Account should be incorporated in the GLSOT.
- b. The transactions of Account No.1033202526051 i.e. Dollar Account should be converted into Taka at a single rate for the month only, say the average monthly rate, and the rate and basis thereof should be clearly indicated.
- c. The budget line item accounts balance of the GLSOT should indicate the amount chargeable to the USAID/B and the expenses not chargeable separately.
- d. The GLSOT should also make provision for booking expenses not chargeable to the phase for which it is prepared.

NRECA Management Comments

- a. NRECA maintains that the recommended General Control Ledger (GLSOT) is not necessary; however, it will alter this position if so directed by USAID/Dhaka.

With reference to the recommendation to include the Utility Account (No.1033202526003) in the GLSOT, NRECA has found no logical reason for continuing such account and has taken the necessary steps to close it.
- b. The inter-account currency conversion rates have no apparent use or effect on any transactions pertinent to vouchers for USAID reimbursement; therefore, they have been removed from the accounting program and should be of no further concern.
- c. NRECA has instituted accounts and procedures which separate chargeable from non-chargeable expenses for reimbursement by USAID. This should not be an issue in future audits.
- d. At present there is no Contract contemplated beyond the present Phase IV; therefore, NRECA is taking considerable care to avoid any obligations that are beyond the 22nd July, 1996 expiry of the Phase IV Contract.



FINDING 4

DEFICIENCIES IN SYSTEM OF PAYMENT PROCEDURES

CONDITION

Duplicate invoices are not defaced at the time of payments. Instances are as follows :

Bill No.	Date	Payee	Amount	
			(Tk.)	(US\$)
Nil	09.04.89	Bionic Compression	63,000	1,863
P/89-90/164	06.01.90	Pioneer Engineering	13,200	418
2531/10/91	07.10.91	Travel Consultants	3,06,000	8,340

CRITERIA

Good accounting practice dictates that duplicate bills should be cancelled at the time of payments.

CAUSE

The reason for the abovementioned deficiencies is lack of understanding of control systems and procedures among personnel responsible for management and control of funds.

EFFECT

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

RECOMMENDATION NO.4

We recommend that NRECA establishes and implements procedures to ensure duplicate invoices are defaced at the time of payment.

NRECA Management Comments

NRECA has instituted procedural changes requiring defacing or destruction of duplicate invoices at the time payments are made.



Price Waterhouse



**NRECA INTERNATIONAL LIMITED, DHAKA.
RURAL ELECTRIFICATION PROJECT-III
(UNDER USAID/BANGLADESH PROJECT NO.388-0070)**

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

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

We have audited the Fund Accountability Statement of NRECA International Ltd. (NRECA) under the Rural Electrification Project III (USAID/Bangladesh Project No.388-0070) as set out on pages 7 to 11 (which covered only costs incurred in Bangladesh) for the period from 1st April, 1988 to 30th November, 1991 and have issued our report thereon dated 19th August, 1992.

We conducted our audit in accordance with generally accepted U.S. Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

Compliance with laws, regulations, contracts, grants and binding policies and procedures applicable to NRECA is the responsibility of the management of NRECA. As part of our audit, we performed tests of the NRECA's compliance with certain provisions of laws, regulations, contracts, grants and binding policies and procedures. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

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 those violations is material to the Fund Accountability Statement. Our tests of compliance disclosed certain material instances (Finding Nos. 1, 2 and 5) of non compliances, the effect of which have not been corrected in NRECA's Fund Accountability Statement for the period 1st April, 1988 to 30th November, 1991 resulting in questioned cost of Tk.3,155,208 (US\$ 89,400).

The material instances of non compliance are noted in Findings 1, 2 and Finding 3 of the report on Internal Controls and Finding 5 of the report on Compliance Section.

We considered these material instances of non compliance in forming our opinion on whether NRECA's Fund Accountability Statement for the period 1st April, 1988 to 30th November, 1991 is presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report has been considered for the purpose of our report dated 19th August, 1992 on the Fund Accountability Statement.

Our testing of transactions and records selected, disclosed instances of non-compliance with certain laid down policies and procedures. All instances of non-compliance that we found are identified in the accompanying schedule of Finding 5.

Except as described above, the results of our tests indicate that with respect to the items tested NRECA complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that NRECA had not complied, in all material respects, with those provisions.

This report is intended for the information of USAID/B, REB and the management of NRECA. This restriction is not intended to limit the distribution of this report which is a matter of public record.

19th August,1992.

Eric Waterhouse
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS



**NRECA INTERNATIONAL LIMITED, DHAKA
RURAL ELECTRIFICATION PROJECT III
(UNDER USAID/BANGLADESH PROJECT NO.388-0071)**

FINDING 5

**NRECA DID NOT COMPLY WITH CERTAIN APPLICABLE LAWS
CONDITION**

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

- a. Income Tax had not been deducted from salaries of local employees and deposited with the appropriate authorities within the time frame prescribed under the Bangladesh Tax Laws for the entire duration of Phase III of the project. However tax at source is being deducted for Phase IV which began on December 1, 1991.
- b. Mrs. Amina Abedin, Secretary/Receptionist, a local employee is drawing a salary, with effect from December, 1990 which has exceeded the scale laid down by the contract between REB and NRECA for an employee of this category. No approval was obtained from REB and USAID/B for crossing the said scale.
- c. In the following case the expenses incurred have exceeded the corresponding budget limits set out in the Agreement between NRECA International Ltd. and REB.

Budget Line item	Budget limit Tk.	Amount incurred Tk.	Excess amount incurred. Tk.
Local Staff Salaries	8,979,400	9,230,737	251,337
		Equivalent US\$ (at period-end rate)	6,793

- d. Some Inspection trips (international travels) were made during the period 1.4.88 to 30.11.91 for which no USAID/B approval was obtained by the auditee - Annexure - 3.
- e. In connection with Mr. & Mrs. Pierce's travel to Dhaka - Bangkok - Tokyo - Saipan - Manila - Bangkok - Dhaka in December, 1990 for the purpose of Rest & Recuperation (R&R) the total fare was Tk.174,490 (US\$ 4,889). Mr. Pierce refunded Tk.4,654 (US\$ 130) on the basis of his entitlement being Dhaka - Seattle - Dhaka. However Saipan not being US territory and there being no travel to United States as such Dhaka - Seattle - Dhaka can not be claimed as minimum eligible entitlement.



- f. In connection with Mr. & Mrs. Breunig's travel in November, 1991 covering Dhaka - Bangkok - San Francisco - Las Vegas - Colorado Springs - Dallas - Atlanta - Colorado Springs - Denver - San Francisco - Bangkok - Dhaka, since this was considered a R&R trip and the travel was to USA, Mr. Breunig's entitlement should have been considered as Dhaka - Seattle - Dhaka. However in this instance the full itinerary was considered as the entitlement and the full fare of Tk.266,760 (US\$ 7,208) was paid.
- g. As per the travelling expense statement submitted by Mr. Breunig in connection with his inspection trip covering Dhaka - Calcutta - Hyderabad - Calcutta - Dhaka in June 1991, per diem was claimed as follows :
- For 2 days at Hyderabad Tk.7,066.62 (US\$ 198) working out to Tk.3,533.31 (US\$ 99) per day.
- For 9 days at Calcutta Tk.68,658.28 (US\$ 1,923.74) working out to Tk.7,628.70 (US\$ 213.75) per day.
- Per diem claimed for both places exceed the limits laid down as per U.S. Travel Regulations.
- h. There were some transportation costs for which the total weight of cargo shipped had exceeded the total weight of cargo allowable (Refer Annexure - 4).
- i. Supportings (or xerox copies thereof) in respect of the following payment vouchers pertaining to Domestic Travel were not available for our verification.

Payment Reference	Particulars	Amount	
		Tk.	US\$
October '88	Transportation,Hotel/Lodging of Mr.David P. Anderson	279	7.54
	Transportation,Hotel/Lodging of Mr. Ivan Holler	2021	54.62
	Lodging of Mr. Wesley D. Bell (Sr.)	40	1.08
	(i)	<u>2340</u>	<u>63.24</u>



Payment Reference	Particulars	Amount	
		Tk.	US\$
July '91	Lodging of Mr. Ivan Holler	120	3.24
	(ii)	120	3.24
October '91	Mr. Pierce (supportings not available)	21280	580.00
	(iii)	21280	580.00
	Total (i + ii + iii)	23740	646.48

- j. Mr. D. P. Anderson, Consultant, did not undertake the travel against his air ticket for Dhaka - Jeshore - Dhaka. The ticket was also not cancelled. However the cost of the ticket Tk.1,050.00 (US\$ 29) was charged to total domestic travel (in December, 1990). Since the consultant did not undertake the travel, this cost is not an allowable Direct Cost.
- k. In connection with official tours undertaken by expatriate staff of NRECA it was observed that in case of Mr. Breunig's Inspection trip to Calcutta - Hyderabad - Calcutta - Dhaka in June 1991, the invoice was raised on USAID/B claiming Tk.122,525.13 (US\$ 3,367) which was the amount that was advanced to Mr. Breunig for the trip. However the Travelling Expense Statement submitted by Mr. Breunig's was for Tk.77,210.12 (US\$ 2,121.74), and the balance Tk.45,315.01 (US\$ 1,245.26) was refunded by Mr. Breunig to NRECA subsequently in June, 1991, but not refunded in turn by NRECA to USAID/B. Accordingly, the above sum of Tk.45,315.01 (US\$ 1,245.26) is a non-allowable item as no direct cost was incurred.

CRITERIA

- a. As per Section 50 of the Bangladesh Income Tax Ordinance, 1984, the person responsible for making any payment under the head salaries shall deduct tax from the amount so payable at the rate applicable.
- b. Appendix B of the Contract between Rural Electrification Board of Bangladesh and NRECA International Ltd. lays down the Base Salary Range for each category of the local employees. Also Article VII, Clause B of the agreement states that annual increments listed in Appendix B shall not be exceeded without prior approval in writing by the Contracting Agency and A.I.D.



- c. As per the A.I.D. letter number 1414 dated August 5, 1990, the contract does not allow for expenditure over budget line item amount.
- d. As per clause 7(e) [Page 11 of 15] of General Provisions For Host Country Contract travel made for the purpose of Inspection, must be approved in advance, in writing, by the Contracting Agency (in this case REB) and USAID.
- e,f. As per USAID/B Notice No. 44 dated 9.12.1985, the designated point for R&R is Dhaka - Sydney - Dhaka for travel to non US territory and Dhaka - Seattle - Dhaka for travel to U.S. territory.
- g. As per per diem rates prescribed by USAID/B - Federal Travel Regulation (Ref. A.I.D. Handbook 22) and which was prevalent during the time of Mr. Breunig's travel, it is mentioned that for travel made to cities other than Delhi, Bombay, Calcutta and Madras, the maximum per diem allowed for lodging is US\$ 58 per day. For Calcutta the maximum per diem allowed is US\$ 181 per day for lodging and M&IE.
- h. As per guidelines prescribed in the Federal Travel Regulations and Host Country Contract, the total allowable weight is 1750 lbs. with an additional unaccompanied baggage of 250 lbs. for the main person and 200 lbs for the spouse.
- i. As per clause 9A of General Provisions For Host Country Contract (Cost Reimbursable Contract for Professional and Technical Services Funded by USAID) the contractor shall maintain books, records, documents and other evidence and shall apply consistent accounting procedures and practices sufficient to reflect properly all transactions under or in connection with the contract.
- j,k. Article VII of the contract between REB and NRECA states that NRECA will be reimbursed all direct costs, and direct cost has been defined as those costs that can be specifically identified with or specifically required for the project.

CAUSE

- a,b,c The above referred non compliance are due to lack of awareness of the requirements of applicable laws and regulations among NRECA officials.
- d. The auditee was of the idea that since the contracting agency (REB's) approval was obtained by them, there was no need to obtain an USAID approval.



- e. At the time of travel, the auditee was of the belief that Saipan is a U.S. territory and hence the entitlement given was Dhaka - Seattle - Dhaka, which is the entitlement for travel to United States for R&R.
- f,g The travelling expense statements submitted by the travellers were not properly scrutinised by NRECA.
- h. The shipment bills were not properly scrutinised by the NRECA officials.
- i,j,k The reason for the above referred deficiency is lack of awareness of the above mandatory provisions.

EFFECT

- a. The non compliance of the above issue may result in penalties as per the applicable provisions of the local law.
- b. The above non compliance resulted in questioned costs in the concerned local staff drawing additional salary of Tk.1,236 (US\$ 33) [at period-end rate], which is in excess of the approved base salary.
- c. In view of the non compliance discussed above, USAID cannot be assured that NRECA exercises adequate control over funds granted by it and expenses made out of such funds and leading to questioned costs aggregating to Tk.251,337 (US\$ 6,793).
- d. Nonavailability of USAID approval gives rise to the question of disallowance of such expenses, totalling Tk.27,280 (US\$ 760).
- e. As certified by Galaxy Travels, Saipan is a non US territory and hence Mr. & Mrs. Pierce were entitled for Dhaka - Sydney - Dhaka fare which at that time was Tk.101,672 (US\$ 2,849). This resulted in questioned costs amounting to Tk.68,154.00 (US\$ 1,907).
- f. Since Dhaka - Seattle - Dhaka fare was Tk.96,444 (US\$ 2,607) at the point of time when this R&R trip was made, the total eligible amount was Tk.192,888 (US\$ 5,213). As such the difference of Tk. (266760 - 192888) or Tk.73,872 (US\$ 1,997) resulted in questioned costs.



- g. This has resulted in Mr. Breunig claiming excess per diem as follows :
- | | |
|---|----------------|
| Hyderabad : US\$ [(99.00 - 58.00) x 2] i.e. US\$ 82 | (Tk.2,926.58) |
| Calcutta : US\$ [(213.75 - 181.00) x 9] i.e. US\$ 295 | (Tk.10,519.63) |
- Therefore total of US\$ (82 + 295) US\$ 377 (Tk.13,446.21) resulted in questioned costs.
- h. The above resulted in questioned costs amounting to Tk.99,633.00 (US\$ 2705).
(Refer Annexure-4)
- i. The above resulted in questioned costs amounting to Tk.23,740.00 (US\$ 646).
- j. The above resulted in questioned costs amounting to Tk.1,050.00 (US\$ 29).
- k. The above resulted in questioned costs amounting to Tk.45,315.01 (US\$ 1,245).

RECOMMENDATION NO.5

- a. We recommend that NRECA reviews the matter for necessary resolution.
- b We recommend that NRECA resolve the above Tk.605,063.22 (US\$ 16,492) in questioned costs with the host country contracting agency (REB) and USAID, and repay the amount
- k determined to be unallowable.

NRECA Management Comments

- a. NRECA acted in the good faith and belief that its Bangladesh staff was subject to the same laws and regulations as those in the U.S. Embassy and USAID and, as such, salaries paid to them was covered by the bilateral agreement between the Governments of Bangladesh and the U.S. and not subject to income tax withholding. With Phase IV Contract NRECA has changed its position and has begun withholding income tax for the five (5) qualifying members of its Bangladesh staff.
- b. NRECA has refunded the Tk.1,236.00 (US\$ 33) to USAID; thus, is now in Contract compliance on this finding.



- c. REB and USAID have now approved line item budget transfers to offset the Tk.261,337.00 (US\$ 6,793) excess expenditure in this case; thus, is now in Contract compliance on this finding.
- d. By its letter No.0255, dated 28 February, 1993, USAID has accepted that the subject inspection travel is consistent with previously-approved travel and approved these seven (7) trips. NRECA is now in Contract compliance on this finding.
- e. NRECA has refunded the Tk.68,154.00 (US\$ 1,907) to USAID; thus, is now in Contract compliance on this finding.
- f. NRECA has refunded the Tk.73,872.00 (US\$ 1,997) to USAID; thus, is now in Contract compliance on this finding.
- g. NRECA has refunded the Tk.13,446.00 (US\$ 377); thus, is now in Contract compliance on this finding.
- h. NRECA has refunded the Tk.120,913.00 (US\$ 2,705) to USAID. It has submitted documentation to USAID supporting the remaining Tk.21,280.00 (US\$ 580) as an allowable expense for excess accompanied baggage. Assuming USAID allows this expense, NRECA will be in Contract compliance on this finding.
- i. NRECA has refunded the Tk.2,460.00 (US\$ 646) to USAID; thus, is now in Contract compliance on this finding.
- j. NRECA has refunded the Tk.1,050.00 (US\$ 29) to USAID; thus, is now in Contract compliance on this finding.
- k. NRECA has refunded the Tk.45,315.00 (US\$ 1,245) to USAID; thus, is now in Contract compliance on this finding.



**NRECA INTERNATIONAL LIMITED, DHAKA.
RURAL ELECTRIFICATION PROJECT III
(UNDER USAID/BANGLADESH PROJECT NO.388-0070)**

FOLLOW-UP ON PRIOR FINANCIAL REVIEW

We have reviewed the status of action taken on findings reported in the Financial Review of NRECA under USAID/Bangladesh Project No.388-0070 for the period April, 1988 to March, 1990 by M/s. Barea Pear & Khan, Chartered Accountants. Listed below are findings reported in the above review, where corrective action has not been taken and the deficiency remains unresolved for the current audit period (which also partly covers the above financial review period).

- a. A petty cash book should be maintained for all petty cash transactions. The book should provide columnar analysis facilities to allow analysis of expenses.
- b. NRECA should introduce a ledger system and calculate and post the accrued expenses for each month into the ledger. The introduction of a ledger is also necessary to accumulate the expenses during the life of the contract under the various budget line items. [Refer Findings 1 and 2 (Pages 12 and 13) of our report on the Fund Accountability Statement and Finding 3 of our report on Internal Controls].
- c. The terms and conditions of the H.C.C. (Host Country Contract) and the procedures for monitoring their compliance should be explicitly incorporated in the formal systems documentations.

Except for Finding C above, all other findings were closed subsequent to the period under audit, as per USAID/B letter No.884 dated 30th June, 1992. However we are of the opinion that these findings need to be reviewed again in view of our observations noted against respective findings of our current audit report.

NRECA Management Comments

- a. NRECA now maintains a Petty Cash Summary which can be used for the purposes set forth in this finding.



- b. **NRECA's accounting system accumulates expenses by budget line item amounts and monthly invoices show cumulative expenditures and budget amount remaining. Quarterly, NRECA submits to REB a report giving cumulative Taka and U.S. Dollar expenditures, and balances remaining in both the current Letter of Commitment and the overall Contract budget. This should be sufficient for tracking expenses and avoiding unallowable costs.**

- c. **A number of changes have been made in policies and procedures whereby Contract compliance is better monitored and ensured. As additional needs are found, they will also be addressed.**



**NRECA INTERNATIONAL LIMITED, DHAKA
RURAL ELECTRIFICATION PROJECT III
(UNDER USAID/BANGLADESH PROJECT NO.388-0070)
SUMMARY OF ALL QUESTIONED COSTS**

	Amount	
	Tk.	US\$
1. Gratuity paid for services rendered before the commencement of the project (Refer Finding 1 on Page 12)	752,395	20,335
2. Payments pertaining to house lease expiring after the end of the project (Refer Finding 2 on Page 13 and Annexure - 2 on page 32)	1,777,750	52,573
3. Salary drawn in excess of the scale approved by REB and USAID (Refer Finding 5b. on Page 22)	1,236	33
4. Budget category expenses exceeding relevant budget limit (Refer Finding 5c. on Page 22)	251,337	6,793
5. Inspection Trips not approved by the Contracting Agency and USAID/B (Refer Finding 5d. on Page 22 and Annexure 3 on Page 33)	27,280	760
6. Violation of rules regarding R&R travel by expatriate employees (Refer Finding 5e on Page 22 and 5f. on Page 23)	142,026	3,904
7. Per diem for inspection trips paid in excess of the limits (Refer Finding 5g on Page 23 and Finding 5k. on Page 24)	58,761	1,622
8. Baggage charges incurred in excess of the rules (Refer 5h. on Page 23 and Annexure 4 on Page 34)	99,633	2,705
9. Supporting documents not available (Refer Finding 5i. on page 23 & 24)	23,740	646
10. Air fare claimed in excess over and above the rules (Refer Finding 5j. on Page 24)	1,050	29
	<u>3,135,208</u>	<u>89,400</u>



**NRECA INTERNATIONAL LIMITED, DHAKA
RURAL ELECTRIFICATION PROJECT III
(UNDER USAID/BANGLADESH PROJECT NO.388-0070)**

Statement showing Unexpired Lease Rents as on November 30, 1991

(Finding No.2 on Page 13)

House Address	Lease Period	Total Rent Advance Paid (Tk)	Unexpired Advance Rent	
			(Tk)	(US\$)
No.17, Road 117, Gulshan.	October 10, 1989 to October 1, 1993	876,000	418,000	13,224
No.7, Road 72, Gulshan	May 1, 1990 to April 30, 1994	744,000	459,000	13,576
No Cen(F) 18, Road 105, Gulshan	January 1, 1990 to December 31, 1994	660,000	343,750	9,632
No.24, Road 7, Banani	September 1, 1991 to August 31, 1993	120,000	105,000	2,862
No.G 25, Road 9, Banani	May 1, 1990 to April 30, 1992	216,000	45,000	1,424
No.62A, Road 16, Banani	April 27, 1990 to April 26, 1994	480,000	290,000	8,577
No.34, Road 115 Gulshan	January 1, 1991 to December 31,1993	216,000	117,000	3,278
			1,777,750	52,573



**NRECA INTERNATIONAL LIMITED, DHAKA
RURAL ELECTRIFICATION PROJECT III
(UNDER USAID/BANGLADESH PROJECT NO.388-0070)**

List of International Travels made for the purpose of Inspection for which USAID Approval was not obtained.

(Finding 5d on Page 22)

Name of the Traveller	Itinerary	Date of Travel	Amount	
			(Tk)	(US\$)
Mr. K. Breunig	Dhaka-Calcutta-Dhaka	02.06.91	3,080	86
Mr. K. Breunig	Dhaka-Hyderabad-Dhaka	12.06.91	9,648	270
Mr. K. Breunig	Dhaka-Calcutta-Dhaka	22.08.91	3,096	84
Mr. K. Breunig	Dhaka-Calcutta-Dhaka	22.12.90	2,864	80
Mr. K. Breunig	Dhaka-Calcutta-Dhaka	08.11.90	2,864	80
Mr. D. Pierce	Dhaka-Calcutta-Dhaka	04.12.90	2,864	80
Mr. K. Breunig	Dhaka-Calcutta-Dhaka	08.10.90	2,864	80
			27,280	760



**NRECA INTERNATIONAL LIMITED, DHAKA
RURAL ELECTRIFICATION PROJECT III
(UNDER USAID/BANGLADESH PROJECT NO.388-0070)**

Instances of excess baggage (transportation) cost

(Finding 5h on Page 23)

Name	Invoice No.	Cargo Shipped Kg.	Cargo Allow-able* Kg.	Cargo to be dis-allowed Kg.	Rate/ Kg.	Amount	
						(Tk.)	(US\$)
Mr. B. Midgette (2 persons)	October 1991	1038 (2284 lb.)	909 (2000 lb.)	129 (284 lb.)	156.40	20,176	550
Mr. Pierce (2 persons)	October 1991	1249 (2748 lb.)	1000 (2200 lb.)	249 (548 lb.)	146.95	36,591	997
Mr. Woodward	November 1991	1266 (2785 lb.)	1000 (2200 lb.)	266 (585 lb.)	161.15	42,866	1,158
						99,633	2,705

* As per Federal Travel Regulations and Host Country Contract.



NRECA MANAGEMENT'S COMMENTS

Finding - 1

The Tk.752,395.00 (US\$ 20,335) payment was for gratuity and earned leave obligations when the local staff was terminated in entirety on 30th November, 1991, the expiration date of Phase III of A.I.D. Project No.388-0070. No such termination took place at the end of Phase II; therefore, there was no liability for payment at that time and NRECA is in Contract compliance on this finding.

Finding - 2

The Tk.1,777,750.00 (US\$ 52,573) in advance lease payments to various landlords represent costs that are assignable to Phase IV operations; therefore, NRECA has made accounting adjustments to reduce Phase III expenditures and increase Phase IV expenditures by this amount and is now in Contract compliance on this finding.

Finding - 3

- a. NRECA maintains that the recommended General Control Ledger (GLSOT) is not necessary; however, it will alter this position if so directed by USAID/Dhaka.

With reference to the recommendation to include the Utility Account (No.1033202526003) in the GLSOT, NRECA has found no logical reason for continuing such account and has taken the necessary steps to close it.

- b. The inter-account currency conversion rates have no apparent use or effect on any transactions pertinent to vouchers for USAID reimbursement; therefore, they have been removed from the accounting program and should be of no further concern.
- c. NRECA has instituted accounts and procedures which separate chargeable from non-chargeable expenses for reimbursement by USAID. This should not be an issue in future audits.
- d. At present there is no Contract contemplated beyond the present Phase IV; therefore, NRECA is taking considerable care to avoid any obligations that are beyond the 22nd July, 1996 expiry of the Phase IV Contract.

Finding - 4

NRECA has instituted procedural changes requiring defacing or destruction of duplicate invoices at the time payments are made.



Finding - 5

- a. NRECA acted in the good faith and belief that its Bangladesh staff was subject to the same laws and regulations as those in the U.S. Embassy and USAID and, as such, salaries paid to them was covered by the bilateral agreement between the Governments of Bangladesh and the U.S. and not subject to income tax withholding. With Phase IV Contract NRECA has changed its position and has begun withholding income tax for the five (5) qualifying members of its Bangladesh staff.
- b. NRECA has refunded the Tk.1,236.00 (US\$ 33) to USAID; thus, is now in Contract compliance on this finding.
- c. REB and USAID have now approved line item budget transfers to offset the Tk.261,337.00 (US\$ 6,793) excess expenditure in this case; thus, is now in Contract compliance on this finding.
- d. By its letter No.0255, dated 28 February, 1993, USAID has accepted that the subject inspection travel is consistent with previously-approved travel and approved these seven (7) trips. NRECA is now in Contract compliance on this finding.
- e. NRECA has refunded the Tk.68,154.00 (US\$ 1,907) to USAID; thus, is now in Contract compliance on this finding.
- f. NRECA has refunded the Tk.73,872.00 (US\$ 1,997) to USAID; thus, is now in Contract compliance on this finding.
- g. NRECA has refunded the Tk.13,446.00 (US\$ 377); thus, is now in Contract compliance on this finding.
- h. NRECA has refunded the Tk.120,913.00 (US\$ 2,705) to USAID. It has submitted documentation to USAID supporting the remaining Tk.21,280.00 (US\$ 580) as an allowable expense for excess accompanied baggage. Assuming USAID allows this expense, NRECA will be in Contract compliance on this finding.
- i. NRECA has refunded the Tk.2,460.00 (US\$ 646) to USAID; thus, is now in Contract compliance on this finding.
- j. NRECA has refunded the Tk.1,050.00 (US\$ 29) to USAID; thus, is now in Contract compliance on this finding.
- k. NRECA has refunded the Tk.45,315.00 (US\$ 1,245) to USAID; thus, is now in Contract compliance on this finding.



Follow-up on Prior Financial Review

- a. NRECA now maintains a Petty Cash Summary which can be used for the purposes set forth in this finding.
- b. NRECA's accounting system accumulates expenses by budget line item amounts and monthly invoices show cumulative expenditures and budget amount remaining. Quarterly, NRECA submits to REB a report giving cumulative Taka and U.S. Dollar expenditures, and balances remaining in both the current Letter of Commitment and the overall Contract budget. This should be sufficient for tracking expenses and avoiding unallowable costs.
- c. A number of changes have been made in policies and procedures whereby Contract compliance is better monitored and ensured. As additional needs are found, they will also be addressed.



APPENDIX 2

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